

Cathay Pacific Airways Limited

Stock Code: 293



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

本年報的中文譯本於本公司的股份登記處備索。

Cathay Pacific Airways Limited

Cathay Pacific Airways Limited ("Cathay Pacific"), with its subsidiaries Hong Kong Express Airways Limited ("HK Express") and AHK Air Hong Kong Limited ("Air Hong Kong"), had 239 aircraft at the end of 2020 of which 92 were held at parking locations outside of Hong Kong. Immediately prior to the onset of COVID-19, our airlines directly connected Hong Kong to 119 destinations in 35 countries worldwide (255 and 54 respectively with codeshare agreements), including 26 destinations in the Chinese mainland. According to IATA's 2019 World Air Transport Statistics, the Cathay Pacific Group was the world's eighth-largest carrier of international passengers, and the third-largest carrier of international air cargo.

Cathay Pacific was founded in Hong Kong in 1946. It has been deeply committed to its home base over the past seven decades and remains so, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres.

Cathay Pacific itself had 199 passenger and cargo aircraft at the end of 2020. The Group's other investments include its catering, laundry, ground-handling and cargo terminal companies, and its corporate headquarters at Hong Kong International Airport.

HK Express, a low-cost airline based in Hong Kong offering scheduled services within Asia, is a wholly owned subsidiary of Cathay Pacific and had 28 aircraft at the end of 2020. Air Hong Kong, an express all-cargo carrier offering scheduled services in Asia, is a wholly owned subsidiary of Cathay Pacific operating 12 aircraft at the end of 2020. Hong Kong Dragon Airlines ("Cathay Dragon"), a regional full-service airline that was formerly a wholly owned subsidiary of Cathay Pacific, ceased operations on 21st October 2020.

Cathay Pacific owns 18.13% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in the Chinese mainland. The Group continues to invest in its home city albeit, as a result of the pandemic, at the end of 2020, it had or was in negotiations to defer 60 new aircraft deliveries.

At the end of 2020, Cathay Pacific and its subsidiaries employed more than 25,600 people worldwide, of whom around 20,800 are employed in Hong Kong. Shares of Cathay Pacific are listed on The Stock Exchange of Hong Kong Limited, as are the shares of its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **oneworld** global alliance, whose combined network serves more than 1,000 destinations worldwide.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

GROUP FINANCIAL STATISTICS

		2020	2019	Change
Results				
Revenue	HK\$ million	46,934	106,973	-56.1%
(Loss)/profit attributable to the shareholders of Cathay Pacific	HK\$ million	(21,648)	1,691	-23,339
(Loss)/earnings per ordinary share	HK cents	(424.3)	39.1	-463.4
Dividend per ordinary share	HK\$	–	0.18	-100.0%
(Loss)/profit margin	%	(46.1)	1.6	-47.7%pt
Financial position				
Funds attributable to the shareholders of Cathay Pacific	HK\$ million	73,257	62,773	+16.7%
Net borrowings*	HK\$ million	73,788	82,396	-10.4%
Shareholders' funds per ordinary share	HK\$	11.4	16.0	-28.8%
Ordinary shareholders' funds per ordinary share ***	HK\$	8.3	16.0	-48.1%
Net debt/equity ratio*	Times	1.01	1.31	-0.3 times

OPERATING STATISTICS – CATHAY PACIFIC AND CATHAY DRAGON

		2020	2019	Change
Available tonne kilometres ("ATK")	Million	14,620	33,077	-55.8%
Available seat kilometres ("ASK")	Million	34,609	163,244	-78.8%
Available cargo tonne kilometres ("AFTK")	Million	11,329	17,558	-35.5%
Revenue tonne kilometres ("RTK")	Million	10,220	24,090	-57.6%
Passenger revenue per ASK	HK cents	32.7	44.2	-26.0%
Revenue passenger kilometres ("RPK")	Million	20,079	134,397	-85.1%
Revenue passengers carried	'000	4,631	35,233	-86.9%
Passenger load factor	%	58.0	82.3	-24.3%pt
Passenger yield	HK cents	56.3	53.7	+4.8%
Cargo revenue per AFTK	HK\$	2.17	1.20	+80.8%
Cargo revenue tonne kilometres ("RFTK")	Million	8,309	11,311	-26.5%
Cargo carried	'000 tonnes	1,332	2,022	-34.1%
Cargo load factor	%	73.3	64.4	+8.9%pt
Cargo yield	HK\$	2.96	1.87	+58.3%
Cost per ATK (with fuel)	HK\$	4.14	3.06	+35.3%
Fuel consumption per million RTK	Barrels	1,708	1,867	-8.5%
Fuel consumption per million ATK	Barrels	1,195	1,360	-12.1%
Cost per ATK (without fuel)	HK\$	3.41	2.19	+55.7%
Underlying** cost per ATK (without fuel)	HK\$	3.09	2.19	+41.1%
ATK per HK\$'000 staff cost	Unit	1,074	1,879	-42.8%
ATK per staff	'000	752	1,256	-40.1%
Aircraft utilisation (including parked aircraft)	Hours per day	4.3	11.9	-63.9%
On-time performance	%	86.7	76.3	+10.4%pt
Average age of fleet	Years	10.1	10.3	-0.2 years
GHG emissions	Million tonnes of CO ₂ e	7.0	18.0	-61.1%
GHG emissions per ATK	Grammes of CO ₂ e	480	545	-11.9%
Lost time injury rate	Number of injuries per 100 full-time equivalent employees	2.28	5.33	-57.2%

* Net borrowings and the net debt/equity ratio excluding leases without asset transfer components are HK\$54,698 million and 0.75 respectively. Further details can be found in note 11 to the financial statements.

** Underlying costs exclude exceptional items, restructuring, impairment and related charges and are adjusted for the effect of foreign currency movements.

*** Ordinary shareholders' funds are arrived at after deducting preference share capital and unpaid cumulative dividends attributable to the preference shareholder as at 31st December of the respective reporting period.

CUSTOMER
CENTRIC

We treat every customer's journey as their most important, continually enhancing their experiences both on the ground and in the air.

CHAIRMAN'S STATEMENT

The Cathay Pacific Group experienced the most challenging 12 months of its more than 70-year history in 2020. COVID-19, and the resultant travel restrictions and quarantine requirements in place around the world, brought about an unprecedented disruption of the global air travel market and the repercussions have been huge. The International Air Transport Association (IATA) estimates that global passenger traffic will not return to pre-COVID-19 levels until 2024.

The Cathay Pacific Group's attributable loss was HK\$21,648 million in 2020 (2019: profit of HK\$1,691 million). The loss per ordinary share in 2020 was HK424.3 cents (2019: earnings per ordinary share of HK39.1 cents). The Group's attributable loss was HK\$11,783 million in the second half of 2020 (2020 first half: loss of HK\$9,865 million; 2019 second half: profit of HK\$344 million). Cathay Pacific and Cathay Dragon reported an attributable loss of HK\$10,032 million in the second half of 2020 (2020 first half: loss of HK\$7,361 million; 2019 second half: loss of HK\$434 million).

The loss for 2020 is net of the receipt of HK\$2,689 million of COVID-19-related government grants globally and includes impairment and related charges of HK\$4,056 million relating to 34 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors and to certain airline service subsidiaries' assets and HK\$3,973 million of restructuring costs inclusive of a HK\$1,590 million write off of a deferred tax asset at Cathay Dragon.

In June 2020, we announced a HK\$39.0 billion recapitalisation. We are very appreciative of the Hong Kong SAR Government's and our shareholders' support for the recapitalisation at a critical time.

In October 2020 we announced an extremely difficult but necessary restructuring which sadly meant the loss of approximately 8,500 positions and the discontinuation of

Cathay Dragon operations by the end of 2020. Additionally, we asked our Hong Kong-based pilots and cabin crew to transition onto new competitive conditions of service. We sincerely thank the 98.5% of pilots and 91.6% of cabin crew who accepted the new contracts.

The cost of the restructuring was about HK\$2.4 billion. It is saving about HK\$500 million per month. This reduced monthly cash burn from HK\$1.5-2.0 billion to HK\$1.0-1.5 billion.

BUSINESS PERFORMANCE OF CATHAY PACIFIC AND CATHAY DRAGON

Since the onset of the pandemic, our passenger revenues in 2020 declined to only 2-3% of 2019 levels. With demand at an all-time low, we drastically reduced our passenger schedule to just a bare skeleton and our operating capacity remained below 10% for much of 2020. We saw occasional pockets of demand, notably in the summer season with student travel from Hong Kong and the Chinese mainland to the UK and other destinations in Europe. Nonetheless, the 2020 summer season, which is usually our peak period of the year, was incredibly difficult.

Passenger revenue in 2020 was HK\$11,313 million, a decrease of 84.3% compared to 2019. Revenue passenger kilometre (RPK) traffic decreased by 85.1%, while available seat kilometre (ASK) capacity decreased by 78.8%. Consequently the load factor decreased by 24.3 percentage points to 58.0% and reached a low of 18.2% in October. Yield increased by 4.8% to HK56.3 cents. 86.9% fewer passengers were carried in 2020 than in 2019.

Our cargo business was by far the better performer, though it too was affected by the substantial contraction in capacity usually provided by the bellies of our passenger aircraft. Yields increased and revenue improved due to the imbalance in the market between available capacity and

CHAIRMAN'S STATEMENT

demand. We increased cargo capacity by chartering services from our all-cargo subsidiary, Air Hong Kong, operating cargo-only passenger flights and carrying select cargo in the passenger cabins of some of our aircraft, and removing some seats in the Economy Class cabins of four Boeing 777-300ERs to provide further cargo space.

Cargo revenue in 2020 was HK\$24,573 million, an increase of 16.2% compared to 2019, reflecting the imbalance in the market between demand and available capacity. Revenue freight tonne kilometre (RFTK) traffic decreased by 26.5%, whilst available freight tonne kilometre (AFTK) capacity decreased by 35.5%. Load factor increased by 8.9 percentage points, to 73.3%. Yield increased by 58.3% to HK\$2.96.

To reduce cash expenditure, we reduced capacity, deferred capital expenditure, suspended non-critical expenditure, froze hiring, cut executive pay and asked employees to participate in two voluntary special leave schemes, which received about 80% and 90% uptake, respectively, for which we are very grateful.

Total fuel costs (before the effect of fuel hedging) decreased by HK\$20,881 million (or 72.8%) compared with 2019. Hedging losses were incurred because of the steep decline in fuel usage and in fuel prices. After taking hedging losses into account, fuel costs decreased by HK\$18,068 million or 62.8% compared to 2019. Non-fuel costs per available tonne kilometre increased.

We transferred 82 passenger aircraft (46% of the airlines' passenger fleet) which had been parked at Hong Kong International Airport, to locations outside of Hong Kong, including Alice Springs in Australia and Ciudad Real in Spain. These locations provide better environmental conditions than those to which the aircraft were exposed in Hong Kong.

We reached agreement with Airbus to defer delivery of our A350-900 and A350-1000 aircraft from 2020-21 to 2020-23, and to defer delivery of A321neo aircraft from 2020-23 to 2020-25. Advanced negotiations are taking place with

Boeing for the deferral of the delivery of our 777-9 aircraft. 10 aircraft were delivered in 2020 (including our first A321neo, in November). These aircraft will modernise our fleets and improve efficiency.

BUSINESS PERFORMANCE OF OTHER SUBSIDIARIES AND ASSOCIATES

HK Express reported a loss of HK\$1,723 million for 2020. The sudden contraction in passenger demand caused by the pandemic and travel restrictions imposed by governments around Asia led to the airline suspending all flight operations between 23rd March and 1st August. 10 aircraft have been transferred to Alice Springs for parking.

Air Hong Kong's financial results improved compared with those of 2019 due to the strong air cargo demand amid COVID-19.

Our airline services subsidiaries generally performed worse than in 2019 due to the collapse in passenger and cargo traffic volumes. Consequently, impairments totaling HK\$1,184 million were recognised in respect of the assets of Vogue Laundry Service and Cathay Pacific Catering Services. Air China (accounted for three months in arrears), was adversely affected by COVID-19, with results lower than those of 2019.

PROSPECTS

Market conditions remain challenging and dynamic. It is by no means clear how the pandemic and its impact will develop over the coming months.

From 20th February 2021, the Hong Kong SAR Government has implemented stricter quarantine requirements for our Hong Kong-based pilots and cabin crew. The new measures have resulted in a reduction to our passenger capacity of about 60% and a reduction to our cargo capacity of about 25% compared to January 2021 levels, and an increase in cash burn of approximately HK\$300-400 million per month over the previous HK\$1.0-1.5 billion range.

All our cash preservation measures will continue unabated. Executive pay cuts will remain in place throughout 2021. We have asked all of our Hong Kong ground employees and many overseas to participate in a third special leave scheme during the first half of 2021 and we are very grateful for the more than 80% uptake that this has received.

Our available unrestricted liquidity at 31st December 2020 totalled HK\$28.6 billion. To secure further liquidity in this difficult environment, earlier this year we issued HK\$6.74 billion in convertible bonds, which will become due in 2026.

We stated at the end of last year that we expected to operate at well below a quarter of pre-pandemic passenger flight capacity in the first half of 2021 with improvement in the second half of the year. This assumed that vaccines would prove to be effective and would be widely adopted in our key markets by summer 2021. Consequently we expected to operate at well below 50% passenger capacity overall in 2021. These statements are still largely valid. The correlation between the roll-out of vaccination programmes in our key markets and the potential future relaxation of travel restrictions remains highly uncertain and difficult to predict. We will remain agile and will respond according to the situation as it develops.

Cathay Pacific Cargo is already handling shipments of COVID-19 vaccines using an expert, next-generation air cargo vaccine solution that addresses specific customer needs for speed, control and special handling for the fast and effective distribution of vaccines across the globe.

Our short-term outlook continues to be challenging. However, we remain absolutely confident in the long-term future and competitive position of our airlines. Our important role at the centre of the Hong Kong aviation hub, and the critical role that Hong Kong will play in the Greater Bay Area and beyond, will continue to place us in good stead as we recover and rebuild from the impact of COVID-19.

Once again I would like to express my sincere gratitude to all Cathay Pacific Group staff for their outstanding professionalism and resilience throughout this unprecedented period for the global aviation industry.

Patrick Healy

Chairman

Hong Kong, 10th March 2021

The background is a solid teal color. Overlaid on this are several thin, white, wavy lines that flow from the left side towards the right, creating a sense of movement and depth. These lines vary in frequency and amplitude, some being more pronounced than others.

OPERATIONAL
EXCELLENCE

Safe, efficient,
on-time and consistent.
Our customers trust us
to make their journeys
easy and enjoyable.

REVIEW OF OPERATIONS

In 2020, the Cathay Pacific Group was significantly impacted by the global COVID-19 pandemic, which together with associated travel restrictions and border closures caused an unprecedented paralysis of the global air travel market. Cathay Pacific's passenger revenues dropped to 2-3% of pre-crisis levels, while HK Express, the Group's wholly owned low-cost carrier, temporarily suspended its operations from 23rd March to 1st August. As a result, our 2020 performance was well below that of previous years.

Our passenger business was by far the most affected by the pandemic. Passenger volumes had already reduced since August 2019 due to the social unrest in Hong Kong, and were heavily impacted from March 2020 as the pandemic intensified. Demand dropped substantially due to low travel sentiment and the associated restrictions placed on travel worldwide, notably the temporary ban on transit traffic via Hong Kong International Airport (HKIA). We introduced a skeleton passenger schedule and for much of the year our monthly passenger capacity was less than 10% of pre-COVID-19 levels. As a result, a number of our passenger aircraft were parked, with about 46% of our passenger fleet being transferred to locations outside of Hong Kong in keeping with prudent operational and asset management considerations. Though we saw a slight increase in demand during the summer months – traditionally our peak season – this was still well below usual levels. Overall in 2020, we flew just 13.1% of the passengers that we carried in 2019.

Our cargo business was by far the better performer despite experiencing a significant drop in capacity due to the lack of available space usually provided by the bellies of our passenger aircraft. Demand for medical supplies, particularly in the first half of the year, replaced weaker traditional flows. The imbalance in the market between available capacity and demand helped push up revenues, as yields increased due to restricted belly capacity. We introduced a number of measures to provide additional capacity where possible, notably operating more than 5,648 cargo-only passenger flights, chartering 680 services from

our all-cargo subsidiary Air Hong Kong, carrying cargo in the cabins of our passenger aircraft, and converting four of our Boeing 777-300ERs by removing some of the Economy Class seats.

In order to preserve as much cash as possible, we introduced a raft of cost-cutting measures. These included executive pay cuts, suspension of all non-critical spend, deferral of aircraft deliveries, negotiating cash deferrals, discounts and mitigations with priority relationship vendors, freezing recruitment, and asking our employees to participate in two rounds of a special leave scheme, which we are very grateful to have had about an 80% and 90% uptake for, respectively. In 2020, the Group also received approximately HK\$2,689 million in government grants globally, mostly in relation to COVID-19.

RECAPITALISATION

In response to the significant decline in passenger revenues arising as a result of the pandemic, on 12th August Cathay Pacific completed a HK\$39 billion recapitalisation of the Company, comprising a HK\$19.5 billion preference share issue (with attached warrants) and a HK\$11.7 billion rights issue, supplementing a HK\$7.8 billion bridging loan facility made available in June 2020. We are very grateful to the Hong Kong SAR Government and our shareholders for their support during this critical time. The recapitalisation has strengthened the balance sheet, improved gearing and provided significant liquidity.

REVIEW OF OPERATIONS

Passenger services • Loyalty and reward programmes

RESTRUCTURING

While the recapitalisation enabled us to continue, our monthly cash burn was approximately HK\$1.5-2.0 billion per month, which was unsustainable. A comprehensive restructuring of the Company was therefore necessary in order to reduce our cash burn and secure the long-term sustainability of Cathay Pacific. The key elements of the restructuring were announced on 21st October.

First was the reduction of 8,500 (or 24%) of our Group establishment headcount of 35,000. Owing to a recruitment freeze and the prior closure of certain overseas crew bases, 2,600 of these roles were already vacant. This translated to approximately 5,900 jobs – or 17% of our Group establishment headcount – being impacted, including 5,300 redundancies in Hong Kong and a further 600 people affected outside Hong Kong.

Second was the discontinuation of Cathay Dragon operations and retiring the brand, which accounted for a large proportion of these job losses. This allows us to focus on two clearly segmented brands, enabling us to invest in Cathay Pacific's strengths and unparalleled customer experience, while leveraging the potential of our low-cost carrier, HK Express. It is intended that most of the destinations formerly served by Cathay Dragon will be served by Cathay Pacific or HK Express in future, and we are pleased that a number of these destinations are already being served by Cathay Pacific. Additionally, certain aircraft previously operated by Cathay Dragon will be progressively transferred to Cathay Pacific and HK Express.

Third, we asked our Hong Kong-based pilots and cabin crew to transition to new, competitive conditions of service. Of those asked, 98.5% of pilots and 91.6% of cabin crew agreed to the new contracts, for which we are very grateful.

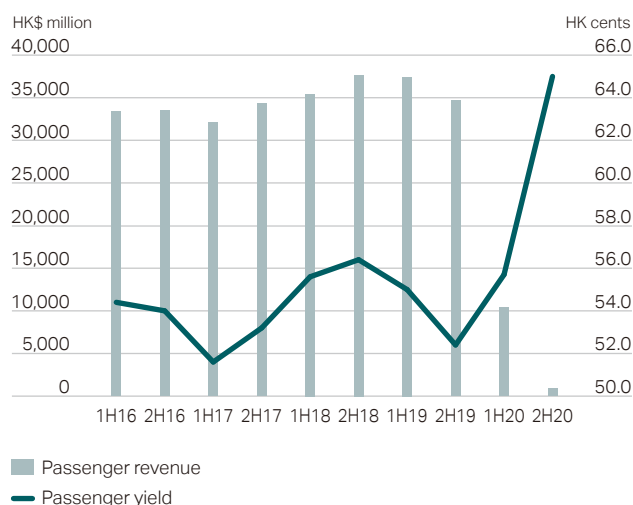
The restructuring enables the Group to be more focused, efficient and competitive. The one-off cost of the restructuring was approximately HK\$2.4 billion. The cash savings that these three initiatives provide are in the region of HK\$500 million per month. As a result, Cathay Pacific's monthly cash burn was brought down to about HK\$1.0-1.5 billion. In connection with the restructuring, a Cathay Dragon deferred tax asset of HK\$1,590 million was also written off.

CATHAY PACIFIC AND CATHAY DRAGON PASSENGER SERVICES

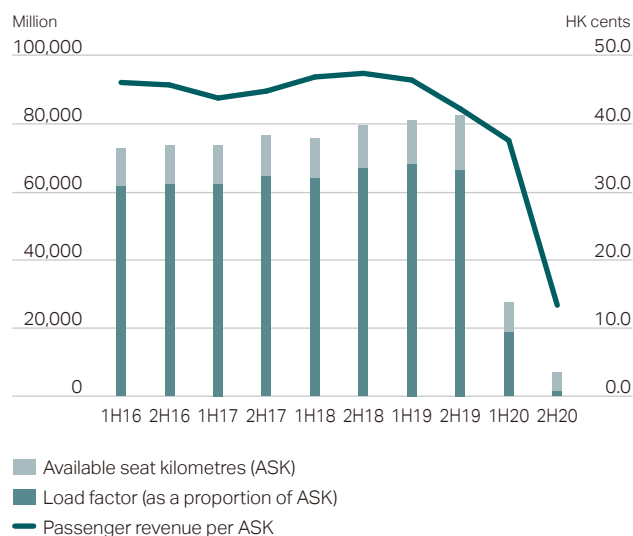
Cathay Pacific and Cathay Dragon carried 4.6 million passengers in 2020, a decrease of 86.9% compared to 2019. Revenue decreased by 84.3% to HK\$11,313 million. RPK traffic decreased by 85.1%, while ASK capacity decreased by 78.8% and load factor decreased by 24.3 percentage points, to 58.0%, with flights supported by cargo flows. Yield increased by 4.8% to HK\$56.3 cents. Inbound and outbound traffic were both down significantly due to the introduction of travel restrictions and border closures both in Hong Kong and worldwide. Meanwhile, transit traffic was particularly impacted by the temporary ban on transit traffic through HKIA from mid-March to early June, and for ex-Chinese mainland transit traffic until mid-August. The lifting of these restrictions brought a gradual increase in demand for transit travel via HKIA over the summer months, particularly from the Chinese mainland. Summer is traditionally our peak passenger season, but in 2020 it was very challenging and student travel from both Hong Kong and the Chinese mainland to the UK and other European destinations formed a significant portion of passengers carrier.

Overall, recovery remained slow in 2020 and we did not see solid signs of immediate improvement. Having carefully studied numerous scenarios facing the industry and our airlines, we expect to operate at well below 50% passenger capacity overall in 2021.

Passenger revenue and yield trend



Passenger capacity, load factor and efficiency



AVAILABLE SEAT KILOMETRES (“ASK”), LOAD FACTOR AND YIELD CHANGE BY REGION FOR 2020 WERE AS FOLLOWS:

	ASK (million)			Load factor (%)			Yield
	2020	2019	Change	2020	2019	Change	Change
Americas	10,762	43,555	-75.3%	54.3	82.9	-28.6%pt	+11.2%
Europe	7,276	34,677	-79.0%	58.5	86.0	-27.5%pt	+5.4%
Southwest Pacific	5,341	18,799	-71.6%	60.7	85.4	-24.7%pt	+8.8%
North Asia	4,693	31,914	-85.3%	61.0	76.6	-15.6%pt	+5.5%
Southeast Asia	4,258	21,483	-80.2%	57.1	81.3	-24.2%pt	+11.4%
South Asia, Middle East and Africa	2,279	12,816	-82.2%	63.6	82.2	-18.6%pt	-1.5%
Overall	34,609	163,244	-78.8%	58.0	82.3	-24.3%pt	+4.8%

INNOVATION

- To provide customers with greater reassurance when planning their travel, we introduced a number of new flexible booking arrangements. This includes Cathay Credits, a system for trading in tickets for credits of equal value that can be redeemed for future bookings. We also introduced unlimited free rebookings, reroutings or refunds for passengers depending on their booking and travel dates (subject to applicable terms and conditions).
- We launched the WhatsApp enquiry channel in select markets that allows customers to receive quick and effective solutions to their queries in a single chat.
- We launched Cathay Care, our series of enhanced measures across every stage of the journey from check-in to the cabin so that customers can take off with confidence. This includes: temperature checks; contactless check-in and boarding; antimicrobial coating on check-in counters, kiosks and other common areas;

REVIEW OF OPERATIONS

Passenger services • Loyalty and reward programmes

mandatory wearing of face coverings by passengers and crew throughout the flight; enhanced cleaning and sanitisation of all surfaces; increased awareness of HEPA filters that remove 99.999% of airborne contaminants onboard aircraft; and others.

- We partnered with AXA General Insurance Hong Kong Limited to provide free coverage for medical expenses related to a COVID-19 diagnosis incurred while overseas beginning in December 2020. This coverage is automatically applied to flights.

AWARDS

- In January 2020, Cathay Pacific and Cathay Dragon service teams and individual staff members won honours at the Hong Kong Customer Service Excellence Awards 2019.
- In July 2020, Cathay Pacific was ranked 4th overall in Japanese travel magazine ABROAD's Airline Rankings 2020.
- In September 2020, Cathay Pacific was named Best Airline for Business Travelers to Asia and Middle East in the Italian Mission Awards organised by Italian business travel sector magazine, Mission.
- In October 2020, Cathay Pacific's Asia Miles rewards programme was ranked 3rd in the Best Frequent Flyer Program (2020) category of USA Today's 10 Best Readers' Choice 2020 awards.
- In October 2020, Cathay Pacific Cargo was named Best Cargo Airline – Asia at the 2020 Air Cargo News Awards.
- In December 2020, Cathay Pacific was named Best Airline in Asia and Best Airline for Transpacific Service at the 2020 Best in Business Travel Awards by Business Traveler USA.

HOME MARKET – HONG KONG AND GREATER BAY AREA

- In the first three weeks of January 2020, we saw a small amount of growth in outbound Hong Kong passengers, largely due to the early start of the Chinese New Year holiday. Outbound travel dropped significantly after the holiday period due to COVID-19.
- On 17th February 2020, we temporarily closed The Bridge, The Deck and The Pier First Class Lounges at Hong Kong International Airport until further notice. On 26th March 2020, The Pier Business Class Lounge was also temporarily closed until further notice.
- From late February 2020, a modified service was introduced in our lounges to have food individually served or portioned as a precautionary health and safety measure.
- As of 1st April 2020, all lounges across our network have been temporarily closed until further notice, with the exception of The Wing at Hong Kong International Airport and the Cathay Pacific Lounge at Shanghai Pudong International Airport.
- A modified inflight service was introduced on all flights to strengthen health and safety protocols.
- As of 10th April 2020, the In-Town Check-in service at Hong Kong and Kowloon Airport Express Stations has been suspended.
- On 21st October 2020, we announced a corporate restructuring that included the ceasing of operations of Cathay Dragon and the Dragon brand. It is intended that most of the routes formerly operated by Cathay Dragon will be operated by Cathay Pacific or HK Express.

AMERICAS

- To cater to a temporary increase in demand, we added capacity on flights to Hong Kong from the United States, and reinstated two flights to Hong Kong from New York (JFK) and Boston during March 2020.
- In April 2020, Cathay Pacific began operating a skeleton passenger flight schedule that included the temporary suspension of flight services to many of its destinations in the Americas. Some destinations were progressively resumed over the following months.
- At 31st December 2020, Cathay Pacific was operating flights to the following destinations in the Americas: Los Angeles, New York (JFK), San Francisco, Toronto and Vancouver.
- Cathay Pacific's 2021 schedule includes the suspension of services to Newark New York, Seattle and Washington D.C. It is hoped that these routes can be served again in future as we recover.

EUROPE

- To cater to a temporary increase in demand from the UK, we reinstated nine flights to London Heathrow and two to Manchester between 17th and 21st March 2020.
- In April 2020, Cathay Pacific began operating a skeleton passenger flight schedule that included the temporary suspension of flight services to many of its destinations in Europe. Some destinations were progressively resumed over the following months.
- Cathay Pacific operated two charter services – in August and September 2020, respectively – from Hong Kong to Tel Aviv to cater primarily for transit passengers from Shanghai.
- In September 2020, Cathay Pacific launched three charter services from Hong Kong to London Heathrow to cater to an increase in demand from transit passengers from the Chinese mainland.
- Demand for flights to the UK and Continental Europe, which had increased during the summer months due to student travel, dropped rapidly following a resurgence of COVID-19 cases in many European countries.
- At 31st December 2020, Cathay Pacific was operating flights to the following destinations in Europe: Amsterdam, Frankfurt, London Heathrow and Tel Aviv.
- Cathay Pacific's 2021 schedule includes the suspension of services to London Gatwick, Brussels and Dublin. It is hoped that these routes can be served again in future as we recover.

SOUTHWEST PACIFIC

- In April 2020, Cathay Pacific began operating a skeleton passenger flight schedule that included the temporary suspension of flight services to many of its destinations in the Southwest Pacific. Some destinations were progressively resumed over the following months.
- At 31st December 2020, Cathay Pacific was operating flights to the following destinations in the Southwest Pacific: Melbourne, Perth, Sydney and Auckland.

NORTH ASIA

- Throughout February and March, Cathay Pacific and Cathay Dragon progressively reduced passenger capacity on flights to and from the Chinese mainland by about 85%.
- When travel restrictions were put in place around the world, Cathay Pacific supported the Hong Kong SAR Government in operating charter flights to bring affected Hong Kong residents home. These included three flights from Tokyo and eight flights from Wuhan and the wider Hubei Province.
- In April 2020, Cathay Pacific and Cathay Dragon began operating a skeleton passenger flight schedule that included the temporary suspension of flight services to many of their destinations in North Asia. Some destinations were progressively resumed over the following months.

REVIEW OF OPERATIONS

Passenger services • Loyalty and reward programmes

- In August 2020, the Hong Kong SAR Government lifted the ban on ex-Chinese mainland transit via Hong Kong International Airport, which led to a gradual increase in demand, in particular student travel.
- In November 2020, Cathay Pacific resumed passenger and cargo services to Kaohsiung, and cargo services to Fukuoka, which had been previously operated by Cathay Dragon.
- At 31st December 2020, Cathay Pacific was operating flights to the following destinations in North Asia: Beijing, Shanghai (Pudong), Kaohsiung, Taipei, Osaka, Tokyo and Seoul.

SOUTHEAST ASIA

- In April 2020, Cathay Pacific and Cathay Dragon began operating a skeleton passenger flight schedule that included the temporary suspension of flight services to many of their destinations in Southeast Asia. Some destinations were progressively resumed over the following months.
- We saw a slight increase in demand for flights serving Indonesia in October, driven by sales from Hong Kong, Indonesia, the Chinese mainland and Taiwan.
- In November 2020, Cathay Pacific resumed passenger and cargo services to Kuala Lumpur, and cargo services to Hanoi, which had been previously operated by Cathay Dragon.
- At 31st December 2020, Cathay Pacific was operating flights to the following destinations in Southeast Asia: Jakarta, Surabaya, Kuala Lumpur, Cebu, Manila, Singapore, Bangkok and Ho Chi Minh City.

SOUTH ASIA, MIDDLE EAST AND AFRICA

- From April 2020, all flights serving South Asia, Middle East and Africa have been temporarily suspended until further notice.
- Cathay Pacific's 2021 schedule includes the suspension of services to Cape Town, Bahrain and Male. It is hoped that these routes can be served again in future as we recover.

LOYALTY AND REWARD PROGRAMMES

MARCO POLO CLUB

- The Marco Polo Club loyalty programme provides benefits and services to the frequent flyers of Cathay Pacific and Cathay Dragon.
- Marco Polo Club members contribute to about a quarter of the revenues of Cathay Pacific and Cathay Dragon.
- Club points are earned by reference to airline, cabin, fare class and distance travelled.
- Silver members (and above) have unlimited access to lounges when flying on Cathay Pacific or Cathay Dragon. All members are entitled to priority boarding and check-in.
- In light of COVID-19, in February 2020 we launched the Club Points Relief Scheme and credited club points every month from February to April 2020 to each member based on tier to assist them in maintaining their status. We also re-issued all mid-tier benefits that expired between February to April 2020 – valid for another 6 months.
- In April 2020, we launched the automatic tier renewal scheme and renewed the status for members whose membership expired in 2020 for another 12 months. We also re-issued all mid-tier benefits that expired during the same period for another 12 months. This has since been extended to cover membership status and mid-tier benefits that expired up to the end of 2021.

ASIA MILES

- Asia Miles is a leading travel and lifestyle rewards programme in Asia. It has more than 12 million members and over 800 partners worldwide, including 25 airlines, more than 150 hotel brands and over 400 dining partners and shops.
- There was a 81% decrease in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights compared to last year, but redemptions on non-flight related channels increased by 85%.
- Marco Polo Club members are also members of Asia Miles.

REVIEW OF OPERATIONS

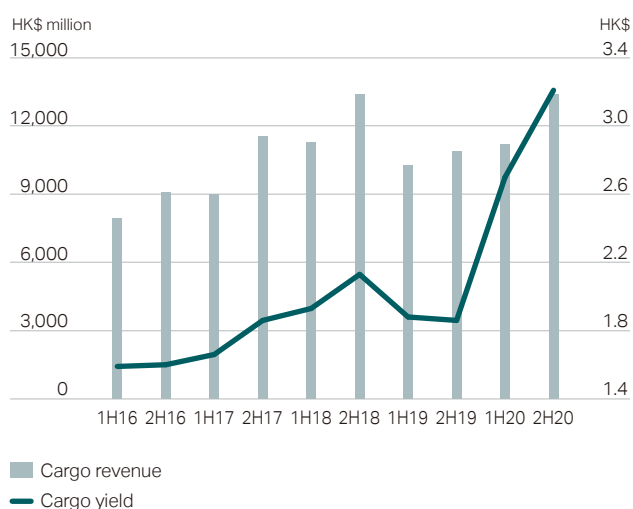
Cargo services • Fleet

CATHAY PACIFIC AND CATHAY DRAGON CARGO SERVICES

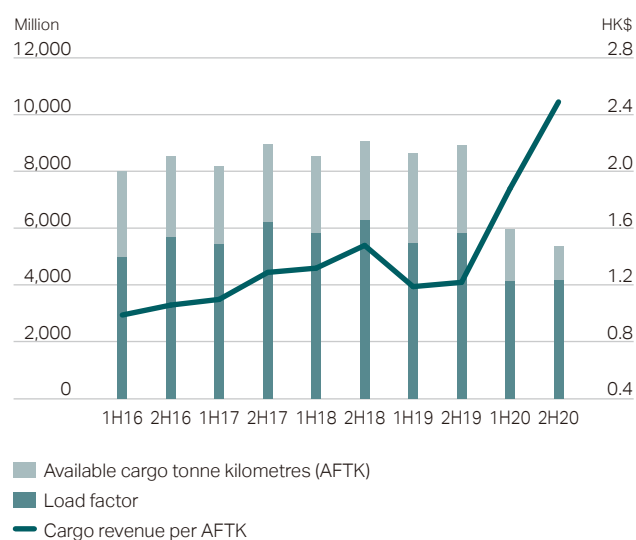
Cargo revenue in 2020 was HK\$24,573 million, an increase of 16.2% compared to 2019, reflecting the imbalance in the market between demand and available capacity. RFTK

traffic decreased by 26.5%, whilst AFTK capacity decreased by 35.5%. Load factor remained high, increasing 8.9 percentage points to 73.3%, and reached its highest point in 2020 – 80.3% – in December. Yield increased by 58.3% to HK\$2.96 and this improvement compensated for volume being constrained by available capacity.

Cargo revenue and yield trend



Cargo capacity, load factor and efficiency



AVAILABLE CARGO TONNE KILOMETRES (“AFTK”), LOAD FACTOR AND YIELD CHANGE FOR 2020 WERE AS FOLLOWS:

	AFTK (million)			Load factor (%)			Yield
	2020	2019	Change	2020	2019	Change	Change
Cathay Pacific and Cathay Dragon	11,329	17,558	-35.5%	73.3	64.4	+8.9%pt	+58.3%

REVIEW OF OPERATIONS

Cargo services • Fleet

- Cargo was the better performer in 2020 despite the significant drop in available capacity usually provided by the bellies of passenger aircraft. The freighter fleet was operating at full capacity for much of the year, supplemented by additional capacity in the form of 5,648 cargo-only passenger flights, 680 charter flights operated by the Group's all-cargo subsidiary Air Hong Kong, and 143 flights with select cargo loaded in the passenger cabins.
- Demand for medical supplies replaced weaker traditional flows.
- In July 2020 we introduced the first of our reconfigured Boeing 777-300ER aircraft, which have had some of the Economy Class seats removed to provide additional cargo space and enabling us to load shipments such as personal protective equipment (PPE). These aircraft were predominantly used for long-haul shipments.
- We saw greater movements of pharmaceutical products and live animal shipments across the network in August 2020, while our time-sensitive product – Priority LIFT – was in good demand.
- In September 2020, we began uplifting mail for Hongkong Post in our passenger cabins using our reconfigured Boeing 777-300ER "freighters". These aircraft were also deployed to run a new, temporary service to Pittsburgh serving the seasonal upsurge in demand.
- Following the National Day Holidays at the beginning of October 2020, demand from our home market, Hong Kong, and the Chinese mainland rebounded quickly, driven by new electronic products.
- We continued to add to our specialised products capability with the introduction of a Skid-Size Fire Containment Bag solution, enabling the safe transport of lithium-ion batteries packed on skids. This solution is being progressively rolled out across our network.
- Demand on the US-China trade lane is back to pre-COVID-19 levels as a result of robust e-commerce.
- In November 2020, we expanded our network commencing a freighter charter series into Riyadh, Saudi Arabia, which was underpinned by inbound e-commerce

demand. In December 2020 we further launched a seasonal service into Hobart, Australia to support exports of fresh produce from Tasmania into different parts of Asia.

- Cathay Pacific began preparing customised vaccine solutions for certain customers as part of efforts to gear up to assist in the distribution of vaccines in the first and second quarters of 2021.

FLEET DEVELOPMENT

- The loss for 2020 includes impairment and related charges of HK\$2.8 billion relating to 34 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors.
- As at 31st December 2020 the Group had transferred 92 passenger aircraft – 44% of its passenger fleet – that were parked at Hong Kong International Airport to Alice Springs in Australia and Ciudad Real in Spain in keeping with prudent operational and asset-management considerations. These locations provide better environmental conditions than the aircraft would have been exposed to in Hong Kong.
- We reached an agreement with Airbus to defer the delivery of our A350-900s and A350-1000s from 2020-21 to 2020-23, and our A321neos from 2020-23 to 2020-25. On 27th January 2021, Boeing announced a delay of the 777X programme with delivery of the first aircraft expected in late 2023. Cathay Pacific is in advanced negotiations with regard to the deferral of its 777-9 deliveries.
- We took delivery of 10 new aircraft in 2020, including our first A321neo aircraft. These deliveries were all firm commitments made earlier that will help our efforts to modernise our fleets and improve efficiency.
- We partially converted four of our Boeing 777-300ER passenger aircraft, by removing some of the seats in the Economy Class cabin, to provide additional cargo-carrying capacity.
- The Group is in the process of transferring certain aircraft from Cathay Dragon to Cathay Pacific and HK Express.

FLEET PROFILE*

Aircraft type	Number at 31st December 2020				Average age	Orders			Total	Expiry of operating leases**					
	Owned	Leased**		Total		'21	'22	'23 and beyond		'21	'22	'23	'24	'25	'26 and beyond
		Finance	Operating												
Cathay Pacific and Cathay Dragon:															
A320-200	5		6	11	15.1					3 ^(a)	3				
A321-200	2		5	7	17.3					2	2	1			
A321-200neo			2	2	0.1	4 ^(b)	6	4	14					2	
A330-300	37	10	4	51	14.2									2	
A350-900	19	6	2	27	3.3	1		2	3					2	
A350-1000	10	3		13	1.9	2 ^(c)	3		5						
747-400ERF	2	4		6	12.0										
747-8F	3	11		14	7.9										
777-300	17			17	19.2										
777-300ER	23	7	21	51	8.8					6	4	2	3	2	
777-9								21	21					4	
Total	118	41	40	199	10.4	7	9	27	43	11	9	3	3	10	
HK Express:															
A320-200			8	8	11.2					3		1	4		
A320-200neo			9	9	2.1	1 ^(b)			1					9	
A321-200			11	11	3.2									10	
A321-200neo							1	15	16						
Total			28	28	5.1	1	1	15	17	3		1	4	19	
Air Hong Kong***:															
A300-600F			9	9	16.7						5	3		1	
A330-243F			1	1	7.6									1	
A330-300P2F			2	2	14.3									2	
Total			12	12	15.5						5	3		4	
Grand total	118	41	80	239	10.1	8	10	42	60	14	14	7	7	33	

* The table does not reflect aircraft movements after 31st December 2020.

** Leases previously classified as operating leases are accounted for in a similar manner to finance leases under accounting standards. The majority of operating leases in the above table are within the scope of HKFRS 16.

*** The nine Airbus A300-600F, one Airbus A330-243F and two A330-300P2F freighters are considered to be operated by Air Hong Kong, even though the arrangement does not constitute a lease in accordance with HKFRS 16.

(a) The operating lease of one Airbus A320-200 aircraft expired in February 2021. The aircraft was returned to its lessor.

(b) Three Airbus A321neo aircraft and one A320neo aircraft are on operating leases.

(c) One aircraft was delivered in March 2021.

REVIEW OF OPERATIONS

Review of other subsidiaries and associates

REVIEW OF OTHER SUBSIDIARIES AND ASSOCIATES

The share of results from other subsidiaries and associates in 2020 was HK\$4,255 million of losses compared to a share of profits of HK\$1,450 million in 2019. Set out below is a review of the performance and operations of principal subsidiaries and associates.

HONG KONG EXPRESS AIRWAYS LIMITED (“HK EXPRESS”)

- HK Express is Hong Kong's only low-cost carrier, focusing on serving leisure travel destinations.
- HK Express typically operates flights to 25 destinations including Bangkok, Da Nang, Fukuoka, Nagoya, Ningbo, Osaka, Phuket, Saipan, Seoul, Taichung and Tokyo.
- At the end of 2020, HK Express had an all Airbus narrow-body fleet of 28 aircraft, including eight Airbus A320-200 aircraft, 11 Airbus A321-200 aircraft and nine Airbus A320-200neo aircraft. The young fleet had an average age of 5.1 years. It is expected to take delivery of one more Airbus A320-200neo aircraft by early 2021.
- HK Express will receive an order previously allocated to Cathay Dragon for the delivery of 16 Airbus A321-200neo aircraft from 2022, which is the most fuel efficient of its type. Such a modern fleet enables HK Express to leverage new opportunities within the region and help strengthen Hong Kong's position as Asia's leading international aviation hub.
- From 23rd March to 1st August 2020, HK Express temporarily suspended flight operations, in response to significantly reduced travel demand and travel restrictions imposed by governments around Asia Pacific due to the COVID-19 pandemic.
- At 31st December 2020, HK Express was operating flights to Bangkok and Taichung.
- For 2020, capacity amounted to 1,742 million available seat kilometres, reflecting the airline's temporary suspension of flight operations. The average flown load factor was 71.0% during the year, a decrease of 16.8 percentage points as compared to the comparative period.
- HK Express recorded a significant after-tax loss of HK\$1,723 million in 2020, compared with a loss of HK\$246 million in the period from acquisition on 20th July 2019 to 31st December 2019.
- Ancillary revenue penetration as a percentage of total revenue was 18.8% during the year. This included non-flight scheduled revenue which arises from the sale of baggage, priority boarding, allocated seats and administration fees, all directly attributable to the low-fare business of HK Express.

	For the year ended 31st December 2020 HK\$M	Period from 20th July to 31st December 2019 HK\$M
Revenue		
Passenger services*	636	1,817
Cargo services	14	23
Other services and recoveries*	211	53
Total revenue	861	1,893
Expenses		
Staff	(575)	(307)
Inflight service and passenger expenses	(10)	(23)
Landing, parking and route expenses	(187)	(476)
Fuel, including hedging losses	(285)	(459)
Aircraft maintenance	(327)	(244)
Aircraft depreciation and rentals	(908)	(386)
Other depreciation, amortisation and rentals	(28)	(17)
Commissions	(1)	(7)
Others	(202)	(170)
Operating expenses	(2,523)	(2,089)
Net finance charges	(274)	(112)
Total expenses	(2,797)	(2,201)
Loss before taxation	(1,936)	(308)
Taxation	213	62
Loss after taxation	(1,723)	(246)

* A portion of ancillary revenue used to calculate ancillary penetration for HK Express is captured under "Passenger services revenue" in alignment with the Group's treatment of revenue in accordance with HKFRS 15.

		For the year ended 31st December 2020	Period from 20th July to 31st December 2019
Operating Statistics			
Available seat kilometres ("ASK")	Million	1,742	4,583
Passenger revenue per ASK	HK cents	36.5	39.6
Revenue passenger kilometres ("RPK")	Million	1,237	4,023
Revenue passengers carried	'000	572	1,888
Passenger load factor	%	71.0	87.8
Passenger yield	HK cents	51.4	45.2
Cost per ASK (with fuel)	HK cents	160.6	48.0
Fuel consumption per million ASK	Barrels	151	150
Fuel consumption per million RPK	Barrels	213	171
Cost per ASK (without fuel)	HK cents	144.2	38.0
ASK per HK\$'000 staff cost	Unit	3,030	14,928
ASK per staff	'000	1,637	4,287
Aircraft utilisation	Hours per day	1.5	8.9
On-time performance	%	91.7	90.4
Average age of fleet	Years	5.1	4.9

REVIEW OF OPERATIONS

Review of other subsidiaries and associates

AHK AIR HONG KONG LIMITED ("AIR HONG KONG")

- Air Hong Kong principally operates express cargo services for DHL Express.
- At the end of 2020, Air Hong Kong operated nine dry leased Airbus A300-600F freighters, one dry leased Airbus A330-243F freighter and two dry leased Airbus A330-300P2F converted-freighters.
- Air Hong Kong operates scheduled and charter flights to major cities in Asia, including Bangkok, Beijing, Cebu (via Manila), Chengdu, Hanoi, Ho Chi Minh City, Jakarta, Kuala Lumpur, Nagoya, Osaka, Penang, Seoul, Shanghai, Singapore, Taipei and Tokyo.
- There was an imbalance between capacity and demand in the cargo market. Compared with 2019, capacity (in terms of available tonne kilometers) increased by 31% to 922 million.
- On-time performance rose by 3.1 percentage points to 90.1%.
- In 2020, Air Hong Kong's financial results improved compared with those of 2019 due to additional COVID-19 related air cargo demand with 680 extra sectors flown for Cathay Pacific.

PRINCIPAL AIRLINE SERVICES SUBSIDIARIES

CATHAY PACIFIC CATERING SERVICES (H.K.) LIMITED ("CPCS") AND KITCHENS OUTSIDE HONG KONG

- CPCS, a wholly owned subsidiary, operates the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 50 international airlines in Hong Kong. It produced 4.7 million meals and handled 16,871 flights in 2020 (representing a daily average of 12,806 meals and 46 flights, a decrease of 84% and 76% respectively from 2019, due to the impact of COVID-19).
- CPCS's losses in 2020 were materially worse than 2019 due to significantly lower meal volumes and asset impairments of HK\$526 million, despite the financial relief measures received from the government or Hong Kong Airport Authority in the form of Employment Support Schemes and various airport charge reductions.

- The profits of the flight kitchens outside Hong Kong decreased significantly compared to the previous year, due to the impact of COVID-19.

CATHAY PACIFIC SERVICES LIMITED ("CPSL")

- CPSL, a wholly owned subsidiary, owns and operates the Group's cargo terminal at Hong Kong International Airport. At the end of 2020, CPSL provided cargo handling services for the Cathay Pacific Group and 15 other airlines.
- CPSL handled 1.4 million tonnes of cargo in 2020 (a decrease of 26% compared with 2019), 48% of which were trans-shipments. Export and import shipments accounted for 33% and 19% respectively of the total.
- The financial results in 2020 declined compared with those of 2019. This was mainly due to lower tonnage handled, as a result of reduced capacity in passenger flights affected by the pandemic, despite the financial relief measures received from the government or Hong Kong Airport Authority in the form of Employment Support Schemes and various airport charge reductions.

HONG KONG AIRPORT SERVICES LIMITED ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services at Hong Kong International Airport. At the end of 2020, it provided ground handling services to 29 airlines, including Cathay Pacific.
- In 2020, HAS had 36% and 4% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport. Due to the impact of COVID-19 on international travel, the number of flights handled under its ramp handling business dropped significantly by 67% in 2020. The number of flights handled under its passenger handling business decreased by 73% against last year.
- The financial results in 2020 were adversely affected by the pandemic despite the financial relief measures received from the government or Hong Kong Airport Authority in the form of Employment Support Schemes and various airport charge reductions.

VOGUE LAUNDRY SERVICE LIMITED ("VLS")

- VLS, a wholly owned subsidiary, provides a comprehensive range of services in laundry and dry cleaning of commercial linen, uniform and guest garments.
- It operates a commercial laundry plant in Yuen Long Industrial Park and runs 12 valet shops in Hong Kong serving retail customers.
- VLS processed 33 million items of laundry in 2020 compared to 102 million items in 2019. The financial results of 2020 declined compared with those of 2019 mainly due to the lower volume of laundry items due to being adversely affected by the pandemic and asset impairments of HK\$658 million, despite the financial relief measures received from the government in the form of Employment Support Schemes.

PRINCIPAL ASSOCIATES

AIR CHINA LIMITED ("AIR CHINA")

- Air China, in which Cathay Pacific had a 18.13% interest at 31st December 2020, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in the Chinese mainland. We are represented on the Board of Directors of Air China and equity account for our share of Air China's results.
- Our share of Air China's results is based on its financial statements drawn up three months in arrears. Consequently, our 2020 results include Air China's results for the 12 months ended 30th September 2020, adjusted for any significant events or transactions in the period from 1st October 2020 to 31st December 2020. The cross shareholding impact of the Cathay Pacific Group restructuring and impairment costs in the last quarter of the year qualifies as an adjusting entry; accordingly a charge of HK\$264 million was incorporated in the Group's results.
- For the 12 months ended 30th September 2020, Air China's financial results declined compared to those for the 12 months ended 30th September 2019.

AIR CHINA CARGO CO., LTD. ("AIR CHINA CARGO")

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest totalling 34.78% as at 31st December 2020, is the leading provider of air cargo services in the Chinese mainland. It has its headquarters in Beijing. Its main operating base is in Shanghai Pudong.
- At 31st December 2020, Air China Cargo operated 15 freighters. It flies to 11 cities in the Chinese mainland and 14 cities outside the Chinese mainland. Taking into account its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to more than 200 destinations.
- Despite a substantial reduction of the belly capacity of passenger aircraft as a result of the COVID-19 pandemic, significantly improved yields, higher utilisation of freighters and lower fuel prices resulted in Air China Cargo's financial results in 2020 being significantly better than last year.

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 22 set out on page 133.

PRODUCTIVITY & VALUE
FOCUSED

By leaning our processes
and being agile in
our decision making,
we focus on the best ways
to solve problems with
positivity and determination.

FINANCIAL REVIEW

The Cathay Pacific Group's attributable loss was HK\$21,648 million for 2020 (2019: profit of HK\$1,691 million). Cathay Pacific and Cathay Dragon reported a loss after tax of HK\$17,393 million for 2020 (2019: profit of HK\$241 million), and the share of losses from subsidiaries and associates was HK\$4,255 million (2019: profit of HK\$1,450 million).

The loss for 2020 includes impairment and related charges of HK\$4,056 million relating to 34 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors, together with certain airline service subsidiaries' assets and HK\$3,973 million on restructuring costs inclusive of a HK\$1,590 million write off of the deferred tax asset for Cathay Dragon.

The Group received HK\$2,689 million of COVID-19 related government grants globally, with HK\$1,503 million

recognised as revenue from other services and recoveries and HK\$1,186 million recognised as cost reductions or waivers within respective cost categories. In addition we received support in the form of advanced ticket sales of HK\$1,008 million from the Hong Kong Special Administrative Region Government which is held within contract liabilities awaiting performance of the related carriage services.

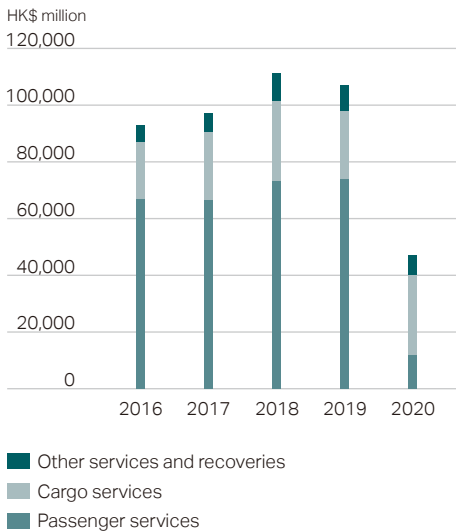
Further details of the financial impacts of COVID-19 can be found in note 32 to the financial statements.

REVENUE

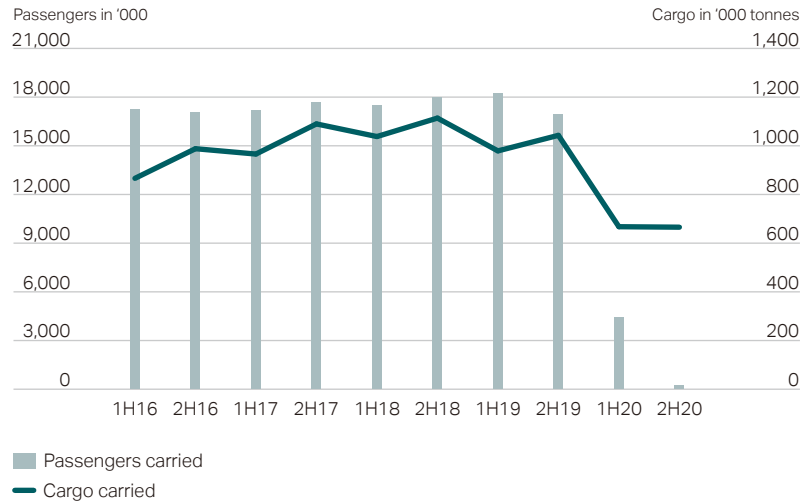
	Group			Cathay Pacific and Cathay Dragon		
	2020 HK\$M	2019 HK\$M	Change	2020 HK\$M	2019 HK\$M	Change
Passenger services	11,950	73,985	-83.8%	11,313	72,168	-84.3%
Cargo services	27,890	23,810	+17.1%	24,573	21,154	+16.2%
Other services and recoveries	7,094	9,178	-22.7%	6,842	8,284	-17.4%
Total revenue	46,934	106,973	-56.1%	42,728	101,606	-57.9%

FINANCIAL REVIEW

Revenue



Cathay Pacific and Cathay Dragon: passengers and cargo carried



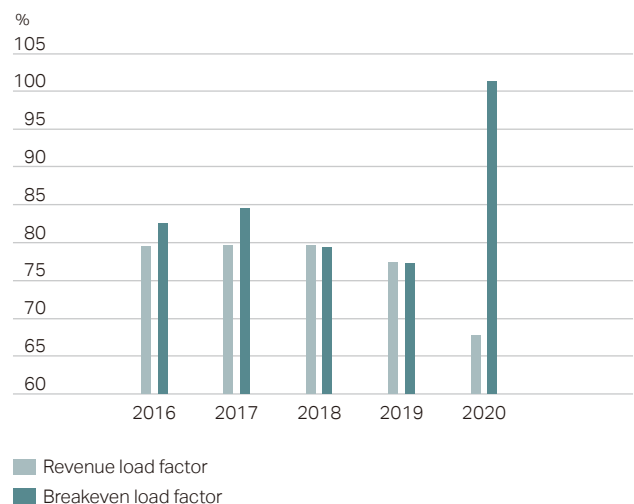
CATHAY PACIFIC AND CATHAY DRAGON

- Passenger revenue decreased by 84.3% to HK\$11,313 million. The number of revenue passengers carried decreased by 86.9% to 4.6 million. Revenue passenger kilometres decreased by 85.1%.
- The passenger load factor decreased by 24.3 percentage points to 58.0%. Available seat kilometres decreased by 78.8%.
- Passenger yield increased by 4.8% to HK\$56.3 cents.
- First and business class revenues decreased by 85.1% and the load factor decreased from 58.1% to 38.7%.
- Premium economy and economy class revenues decreased by 84.0% and the load factor decreased from 86.3% to 61.2%.
- Cargo revenue increased by 16.2% to HK\$24,573 million despite a 35.5% decrease in available freight tonne kilometers.
- The cargo load factor increased by 8.9 percentage points and cargo yield increased by 58.3% to HK\$2.96.
- The overall revenue load factor decreased by 9.7 percentage points to 67.7%. Due to the significant reduction in capacity, the breakeven load factor rose to 101.4%.

- 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	194
+ 1 percentage point in cargo load factor	335
+ HK¢1 in passenger yield	201
+ HK¢1 in cargo yield	84

Cathay Pacific and Cathay Dragon: revenue and breakeven load factor

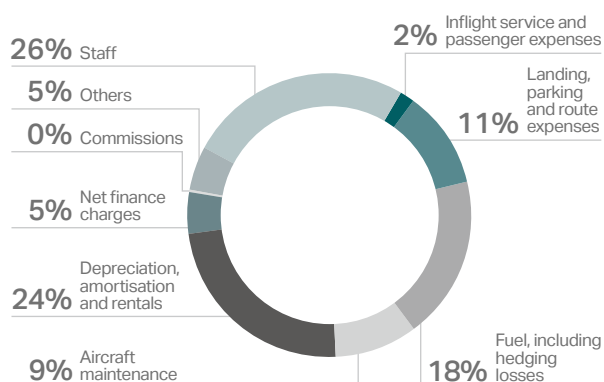


OPERATING EXPENSES

	Group			Cathay Pacific and Cathay Dragon		
	2020 HK\$M	2019 HK\$M	Change	2020 HK\$M	2019 HK\$M	Change
Staff	15,786	20,125	-21.6%	13,616	17,604	-22.7%
Inflight service and passenger expenses	1,102	5,306	-79.2%	1,093	5,284	-79.3%
Landing, parking and route expenses	6,868	17,758	-61.3%	6,268	16,900	-62.9%
Fuel, including hedging losses	11,379	29,812	-61.8%	10,710	28,778	-62.8%
Aircraft maintenance	5,772	9,858	-41.4%	4,745	9,231	-48.6%
Aircraft depreciation and rentals	11,879	12,022	-1.2%	11,060	11,640	-5.0%
Other depreciation, amortisation and rentals	2,720	2,991	-9.1%	1,924	2,132	-9.8%
Commissions	146	927	-84.3%	145	920	-84.2%
Others	2,987	4,847	-38.4%	3,524	6,280	-43.9%
Operating expenses	58,639	103,646	-43.4%	53,085	98,769	-46.3%
Net finance charges	2,895	2,939	-1.5%	2,313	2,446	-5.4%
Total operating expenses	61,534	106,585	-42.3%	55,398	101,215	-45.3%

- The Group's total operating expenses decreased by 42.3% (with the combined Cathay Pacific and Cathay Dragon operating expenses decreasing by 45.3%).
- The cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon increased from HK\$3.06 to HK\$4.14, an increase of 35.3%.
- The cost per ATK (without fuel) of Cathay Pacific and Cathay Dragon increased from HK\$2.19 to HK\$3.41, an increase of 55.7%.
- The underlying cost per ATK (without fuel), which excludes exceptional items, restructuring, impairment and related charges, and are adjusted for the effect of foreign currency movements, increased from HK\$2.19 to HK\$3.09, an increase of 41.1%.

Group total operating expenses



Group fuel price and consumption



FINANCIAL REVIEW

OPERATING RESULTS ANALYSIS

	1st half 2020 HK\$M	2nd half 2020 HK\$M	Full year 2020 HK\$M	1st half 2019 HK\$M	2nd half 2019 HK\$M	Full year 2019 HK\$M
Cathay Pacific's and Cathay Dragon's (loss)/profit before exceptional items, restructuring, impairment and related charges and taxation	(6,903)	(5,726)	(12,629)	966	(455)	511
Exceptional items (note 1)	(40)	(1)	(41)	(59)	(61)	(120)
Restructuring costs (note 2)	–	(2,383)	(2,383)	–	–	–
Impairment and related charges (note 3)	(1,281)	(1,534)	(2,815)	–	–	–
Non-recurring item (note 4)	–	–	–	–	114	114
Taxation (note 5)	863	(388)	475	(232)	(32)	(264)
Cathay Pacific's and Cathay Dragon's (loss)/profit after taxation	(7,361)	(10,032)	(17,393)	675	(434)	241
Share of (losses)/profits from subsidiaries and associates (note 6)	(2,504)	(1,751)	(4,255)	672	778	1,450
(Loss)/profit attributable to the shareholders of Cathay Pacific	(9,865)	(11,783)	(21,648)	1,347	344	1,691
Adjusted (loss)/profit attributable to the shareholders of Cathay Pacific (note 7)	(7,414)	(6,441)	(13,855)	1,406	291	1,697

Notes:

- 1) Exceptional items in 2020 included redundancy costs of HK\$33 million in connection with the closure of outport crew bases, data security costs of HK\$9 million and HK\$1 million credit associated with the acquisition of HK Express (2019: additional redundancy costs of HK\$8 million in connection with the reorganisation of our outports, data security costs of HK\$41 million and costs of HK\$71 million associated with the acquisition of HK Express).
- 2) Redundancy and related costs of HK\$2,383 million in connection with the restructuring of the Group and the discontinuation of Cathay Dragon operations.
- 3) Impairment and related charges of HK\$2,815 million under Cathay Pacific and Cathay Dragon mainly in connection with 34 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors.
- 4) The non-recurring item in 2019 reflects a gain on deemed partial disposal of an associate.
- 5) A write off of deferred tax assets on tax losses of HK\$1,590 million for Cathay Dragon was recognised under Taxation.
- 6) Impairment and related charges of HK\$658 million and HK\$526 million were recognised for our laundry and catering plants respectively in the first half of 2020. HK\$56 million was recognised for an impairment in an associate in the second half of 2020. A further HK\$264 million Air China cross shareholding effect of CX Group Q4 impairment and restructuring costs was also recognised.
- 7) An adjusted (loss)/profit attributable to the shareholders of Cathay Pacific was arrived at after excluding the above exceptional, restructuring, impairment and non-recurring costs, and their estimated tax impacts.

The movement in Cathay Pacific's and Cathay Dragon's profit/loss before exceptional items, restructuring, impairment and related charges and taxation (isolating foreign currency movements) can be analysed as follows:

	Reported HK\$M	Currency movement HK\$M	Adjusted HK\$M	ATK unit* % change	Note
2019 Cathay Pacific's and Cathay Dragon's profit before exceptional items, impairment and related charges and taxation	511		511		
Changes:					
– Passenger and Cargo revenue	(57,436)	1,008	(56,428)	-10.6%	1
– Other services and recoveries	(1,442)	(19)	(1,461)	+86.3%	2
– Staff	4,019	(24)	3,995	+74.9%	3
– Inflight service and passenger expenses	4,191	(6)	4,185	-52.9%	4
– Landing, parking and route expenses	10,632	(50)	10,582	-15.4%	5
– Fuel, including hedging losses	18,068	(91)	17,977	-15.1%	6
– Aircraft maintenance	4,486	(34)	4,452	+17.1%	7
– Owning the assets**	921	(49)	872	+114.1%	8
– Other items (including commissions)	3,421	(305)	3,116	+26.7%	9
2020 Cathay Pacific's and Cathay Dragon's loss before exceptional items, restructuring, impairment and related charges and taxation	(12,629)	430	(12,199)		

* ATK unit % change represents the adjusted revenue or cost component change per ATK.

** includes aircraft and other depreciation, rentals and net finance charges.

Notes:

- 1) As per Review of Operations section for passenger and cargo services. Reduced unit rate results from a change in the passenger to cargo mix.
- 2) Decreases in passenger related recoveries, Asia Miles revenues and cargo handling revenues. Partially offset by income from COVID-19 government concessions.
- 3) Staff costs lower due to the introduction of special leave schemes, attrition and restructuring reduced headcount, lower variable pay and no discretionary bonuses, however, overall fixed cost nature results in a higher unit cost.
- 4) Savings in inflight service costs as RPK reduction higher than ATK reduction.
- 5) Lower landing, parking and route expenses as a result of reduced operations and government concessions.
- 6) Fuel costs decreased due to a 30.0% fall in the average into-plane fuel price, partially offset by fuel hedging losses.
- 7) Higher per-unit costs due to a continuing requirement for certain scheduled maintenance activities.
- 8) Depreciation and net finance costs overall lower, however higher on a per ATK basis due to its fixed nature.
- 9) Decreased sales, distribution and marketing costs and Asia Miles costs, however a portion of fixed overhead costs remained, increasing per unit costs.

FUEL EXPENDITURE AND HEDGING

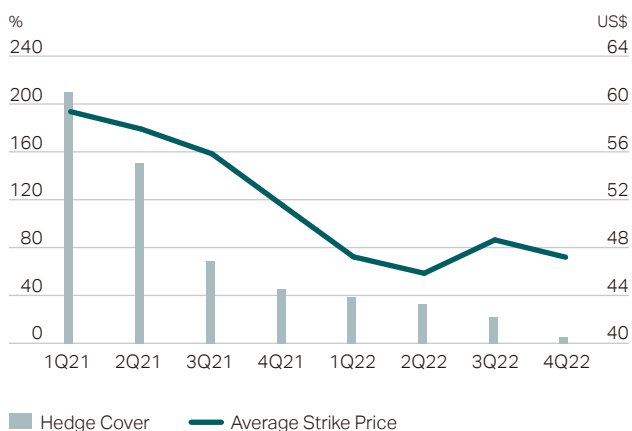
A breakdown of the Group's fuel cost is shown below:

	2020 HK\$M	2019 HK\$M
Gross fuel cost	8,362	29,711
Fuel hedging losses	3,017	101
Fuel cost	11,379	29,812

FINANCIAL REVIEW

- Fuel consumption in 2020 was 18.7 million barrels (2019: 46.6 million barrels), a decrease of 59.9% compared with a decrease in capacity of 55.8%.
- The Group's fuel hedging cover at 31st December 2020 is set out in the chart below.
- The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. The Group uses fuel derivatives which are economically equivalent to forward contracts to achieve its desired hedging position. The chart below indicates the estimated percentage of projected consumption by year covered by hedging transactions at various Brent strike prices. The projected consumption in 1Q21 and 2Q21 is impacted by the capacity reductions associated with COVID-19. The losses of HK\$220 million on these overhedged volumes were recognised in 2020 in accordance with accounting standards.
- The Group does not speculate on oil prices but uses hedging to manage short to medium term volatility in oil prices and therefore its fuel costs. Hedging is not risk free.

Projected fuel hedging cover



TAXATION

- A tax credit has arisen principally as a result of losses incurred by the Group. The tax credit is net of a write off of a Cathay Dragon deferred tax asset on tax losses of HK\$1,590 million.

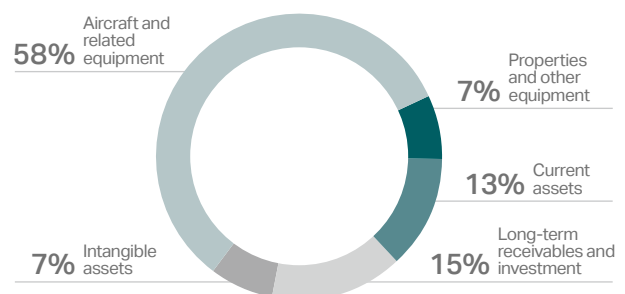
DIVIDENDS

- The Board announced on the 9th February 2021 that it had resolved to defer the payment of preference share dividends due on the 16th February 2021. Such dividends shall accumulate and constitute arrears (and such arrears shall be entitled to dividends at the prevailing dividend rate).
- The terms of the preference shares provide that, for as long as such arrears are outstanding, the Company shall not distribute any dividend on, nor buy-back any of, its ordinary shares. Consequently no ordinary share dividends were paid or proposed for 2020.

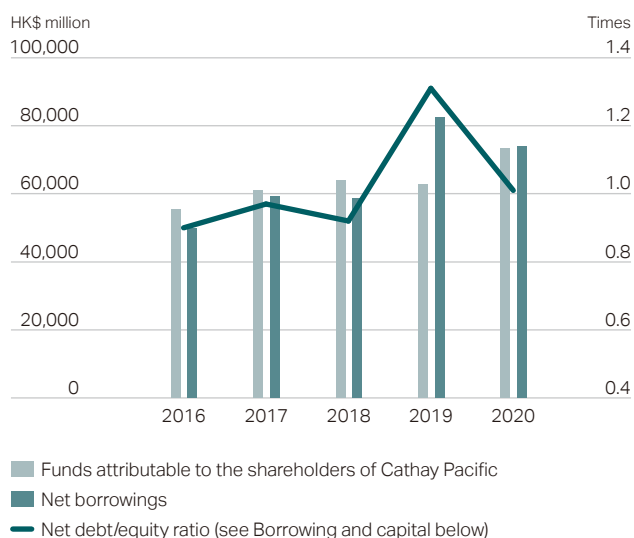
ASSETS

- Total assets at 31st December 2020 were HK\$204,574 million.
- During the year, additions to property, plant and equipment were HK\$8,729 million, comprising HK\$8,321 million in respect of aircraft and related equipment, HK\$249 million in respect of land and buildings and HK\$159 million in respect of other equipment.

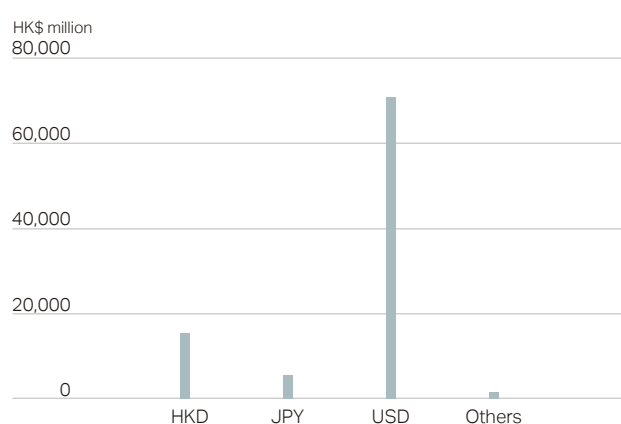
Total assets



Net debt and equity



Borrowings in key currencies



Others include SGD.

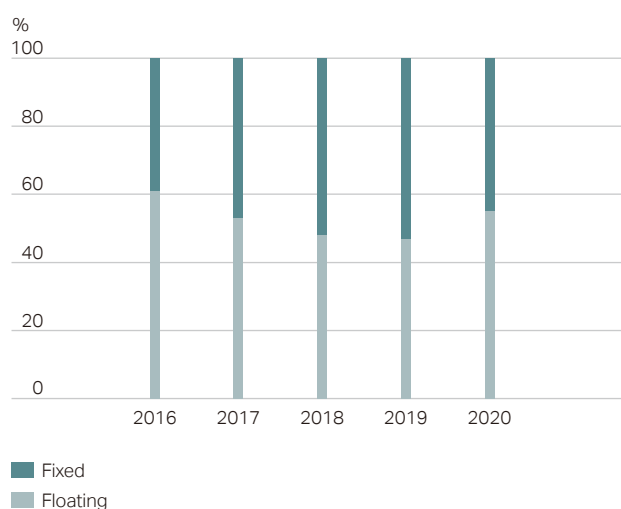
BORROWINGS AND CAPITAL

- Borrowings decreased by 4.2% to HK\$93,129 million. These are mainly denominated in United States dollars, Hong Kong dollars and Japanese yen, and are fully repayable by 2035, with 45.3% currently at fixed rates of interest after taking into account derivative transactions. Excluding lease liabilities previously classified as operating leases, borrowings decreased by 4.2% to HK\$74,039 million, which are fully repayable by 2035, with 33.8% at fixed rates of interest with a similar currency profile.
- Available unrestricted liquidity at 31st December 2020 totalled HK\$28,593 million, comprising liquid funds of HK\$19,341 million and committed undrawn facilities of HK\$9,396 million, less pledged funds of HK\$144 million. To secure further liquidity in this difficult environment, earlier this year we issued HK\$6.74 billion in convertible bonds, which will become due in 2026.
- Net borrowings (after deducting liquid funds) decreased by 10.4% to HK\$73,788 million. Disregarding the effect of adopting HKFRS 16, net borrowings decreased by 12.4% to HK\$54,698 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 16.7% to HK\$73,257 million. This was due to the Group's issuance of preference and rights shares during the year totalling HK\$31.2 billion and an increase in

other comprehensive income of HK\$0.9 billion, offset by losses for the year of HK\$21.6 billion.

- Disregarding the effect of adopting HKFRS 16 on net borrowings, the net debt/equity ratio decreased from 0.99 times to 0.75 times (against borrowing covenants of 2.0). Taking into account the effect of adopting HKFRS 16 on net borrowings, the net debt/equity ratio was 1.01 and 1.31 times at 31st December 2020 and 31st December 2019 respectively.

Interest rate profile: borrowings (after derivatives)





HIGH PERFORMANCE
CULTURE

Our service-oriented people
are equipped with the knowledge
and skills to inspire confidence
and trust, as we move
our customers forward in life.

SUSTAINABLE DEVELOPMENT REVIEW

SUSTAINABLE DEVELOPMENT

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

We operate an environmental management system that is based on ISO14001-2015 certification. The system is audited once a year externally and internally. Opportunities for improvement are identified during these audits.

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

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

Our sustainable development report for 2020 will be published in May 2021. It will be available at https://www.cathaypacific.com/cx/en_HK/about-us/environment/overview/introduction.html

PERFORMANCE UPDATES – CATHAY PACIFIC AND CATHAY DRAGON

		2020	2019	Change
Environment				
GHG emissions	Million tonnes of CO ₂ e	7.0	18.0	-61.1%
GHG emissions per ATK	Grammes of CO ₂ e	480	545	-11.9%
Electricity consumption	MWh	29,907	32,900	-9.1%
Paper consumption (office)	Tonnes	36	67	-46.3%
Paper recycled (office and inflight)	Tonnes	250	1,480	-83.1%
Metal recycled (office and inflight)	Kg	5,922	39,209	-84.9%
Plastic recycled (office and inflight)	Kg	8,789	43,108	-79.6%
People				
Total workforce	Number	19,452	27,342	-28.9%
By location				
Hong Kong	%	75.5	78.1	-2.6%pt
Outport	%	24.5	21.9	+2.6%pt
By employment type				
Flight crew	%	16.5	15.0	+1.5%pt
Cabin crew	%	40.8	48.4	-7.6%pt
Ground staff	%	42.7	36.6	+6.1%pt
By gender				
Female	%	56.5	61.1	-4.6%pt
Male	%	43.5	38.9	+4.6%pt

Data for Cathay Pacific and Cathay Dragon is presented.

Full indicator tables will be provided in Cathay Pacific's Sustainable Development Report at https://www.cathaypacific.com/cx/en_HK/about-us/environment/overview/introduction.html

SUSTAINABLE DEVELOPMENT REVIEW

AWARDS AND RECOGNITIONS IN 2020

- Cathay Pacific has been a constituent of the FTSE4Good Index for 12 years and the Hang Seng Corporate Sustainability Index since its establishment in 2011. We attained the “Performer” ranking in the inaugural Greater Bay Area Business Sustainability Index (GBABSI). In 2020, we responded to the Carbon Disclosure Project climate change questionnaire and received a C rating.
- Cathay Pacific has received the Caring Company status from the Hong Kong Council of Social Service every year since the programme was launched in 2003 in recognition of its good corporate citizenship.
- Cathay Pacific’s Flight Folder project won the Innovation Award (Good Class) in the Hong Kong International Airport (HKIA) Carbon Reduction Award Scheme 2020.

2020 HIGHLIGHTS

ENVIRONMENT

- In 2020, Cathay Pacific committed to achieving net zero carbon emissions by 2050, through an international approach, working with governments around the world and through the United Nations.
- In September 2020, the **oneworld** alliance and its member airlines announced a commitment to net zero carbon emissions by 2050, becoming the first global airline alliance to unite behind a common target to achieve carbon neutrality.
- Cathay Pacific participates in an International Civil Aviation Organization (ICAO) task force that leads the aviation industry’s work in developing proposals for a fair, equitable and effective global agreement on emissions. We also take part in the ICAO Fuel Task Group which specialises in the adoption of sustainable aviation fuel.
- Cathay Pacific engages with regulators and groups (the IATA Sustainability and Environment Advisory Committee, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- In response to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), the Cathay Pacific Group has completed all the necessary preparation and the monitoring, verification and reporting plan has been accepted by the authority.
- In compliance with the European Union’s Emissions Trading Scheme, our 2020 emissions data from intra-EU flights were reported on by an external auditor and submitted to the UK Environment Agency in March 2021.
- In 2020, one Airbus A350-1000 aircraft was flown on its delivery flight from Toulouse to Hong Kong using fuel containing sustainable aviation fuel (biofuel).
- In 2020, we offset 41,134 tonnes of CO₂ through our voluntary offset programme Fly Greener. Since the programme was launched in 2007, over 300,000 tonnes of CO₂ has been offset.
- In 2019, Cathay Pacific announced its three-year target to reduce its single-use plastic footprint by half by the end of 2022 from the 2018 baseline. So far, over 46 million single-use plastic items have been removed from our operations annually according to the 2018 baseline.
- In March 2020, Cathay Pacific participated in WWF’s annual Earth Hour activity. We switched off all non-essential lighting in our buildings and on billboards outside Cathay City.

CONTRIBUTION TO THE COMMUNITY

- Efforts in 2020 centered on helping communities to cope with the impact of COVID-19.
- In February when demand was high for medical supplies but flights were disrupted, our cargo facility worked with Hongkong Post to help facilitate the operation of its Air Mail Centre to ease delivery bottlenecks. During the month-long special operation, more than 90,000 shipments were processed.
- When travel restrictions were put in place around the world, Cathay Pacific supported the Hong Kong SAR Government in operating charter flights to bring affected Hong Kong residents home. These included three flights from Tokyo and eight flights from Wuhan and the wider Hubei Province, bringing back over 1,200 Hong Kong residents. All flights were operated by volunteer flight crew.

- Cathay Pacific has been working with local non-profit organisations, Feeding Hong Kong and Food Angel, which provide surplus food to Hong Kong charities for distribution to people in need. Feeding Hong Kong collects unopened food items from inbound Cathay Pacific flights. Food Angel collects unused and surplus food from our lounges and the Cathay Pacific Catering Services kitchens. More than 648 tonnes of surplus food was collected and donated in 2020.
- We donated over 156,500 pre-prepared meals to the Hong Kong community that were distributed by Food Angel in 2020. Cathay Pacific has committed to further donating an additional 100,000 meals in 2021.
- Staff volunteers from the Cathay Pacific Group also lent a hand to pack and prepare emergency food parcels with Feeding Hong Kong and distribute them to community members in need.
- To facilitate online learning for students especially when schools were closed, we refurbished and hand-delivered 790 iPads to five non-government organisations (NGO) across Hong Kong that support children in need. Our volunteers also helped guide parents on the use of iPads and offered online homework tutorials to the children.
- As of 31st December 2020, more than 700 of our employees have so far signed up for over 720 hours of volunteer work to support our NGO partners and to give back to the community during this challenging time.
- Cathay Pacific supports UNICEF through its “Change for Good” inflight fundraising programme. Since its introduction in 1991, HK\$199 million has been raised through the programme. In 2019, the latest audited year, HK\$6.8 million was raised. An average of one month’s proceeds to the “Change for Good” programme are passed to the Cathay Pacific Wheelchair Bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases.
- The Cathay ChangeMaker programme continued in 2020. The three individuals selected have made significant contributions to environmental protection, youth development and cultural inclusion, which are three key pillars of our community engagement strategy. Cathay Pacific works with its ChangeMakers to help create shared values and enact positive social change.

OUR PEOPLE

- At 31st December 2020, the Cathay Pacific Group employed more than 25,600 people worldwide. Around 20,800 of these people are based in Hong Kong. Cathay Pacific employed more than 19,400 permanent employees worldwide. Around 75% of these people are based in Hong Kong.
- We invest heavily in the employee experience from onboarding new hires to saying farewell when our people leave or retire, and everything in between including training, performance management and engagement.
- In response to changes brought about by the pandemic, The Learning Academy developed a series of virtual courses to cater for the greatly altered needs of our learners. Subjects included effective remote working, leading remote teams, becoming tech-savvy leaders, and supporting and engaging teams remotely.
- Employee health and wellbeing is a key concern of the Group during normal times; however, this year we further enhanced our initiatives on physical and mental wellbeing in response to the effects of the pandemic on our ways of working and its impact on our business. This included providing access to online wellbeing resources, information, knowledge and tips through the Employee Assistance Programme and our intranet, The Hub, in addition to expert guidance and specialist support on any kind of issue from everyday matters to more serious wellbeing problems. Employee workshops with expert speakers from the wellness industry were also held.
- We launched our flexible work programme, Work Your Way, as a way to help our people better achieve a healthy work-life balance and to further foster the innovative and collaborative spirit we’ve witnessed this year. Under the programme our employees can remote work up to two days per week or can stagger their working day around a schedule that suits them and their families.
- 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.

DIRECTORS AND OFFICERS

EXECUTIVE DIRECTORS

HEALY, Patrick[#], aged 55, has been Chairman and a Director of the Company since November 2019. He is also Chairman of Swire Coca-Cola Limited and a Director of John Swire & Sons (H.K.) Limited, Swire Properties Limited and Air China Limited. He joined the Swire group in 1988 and has worked with the group in Hong Kong, Germany and the Chinese mainland.

HUGHES, Gregory Thomas Forrest[#], aged 59, has been Chief Operations and Service Delivery Officer and a Director of the Company since June 2017. He is also a Director of Hong Kong Dragon Airlines Limited and Hong Kong Express Airways Limited and Chairman of AHK Air Hong Kong Limited. He was previously a Director and Group Director Components & Engine Services of Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1987 and has worked with the group in Hong Kong, Korea, Indonesia, Japan and Australia.

LAM, Siu Por Ronald[#], aged 48, has been Chief Customer and Commercial Officer and a Director of the Company since August 2019. He was Director and General Manager, Hong Kong Operations of Hong Kong Aircraft Engineering Company Limited from July 2013 to May 2017 and Director Commercial and Cargo of the Company from June 2017 to July 2019. He is also Chairman of Hong Kong Express Airways Limited. He joined the Swire group in 1996 and has worked with the Company in Hong Kong, Japan and Sri Lanka.

SHARPE, Rebecca Jane[#] (formerly known as WALLACE, Rebecca Jane), aged 49, has been Chief Financial Officer and a Director of the Company since January 2021. She is also a Director of Hong Kong Express Airways Limited and AHK Air Hong Kong Limited. She was a Director and Group Director Finance of Hong Kong Aircraft Engineering Company Limited and, before that, Finance Director of The China Navigation Company Pte. Limited. She joined the Swire group in 2008 and has worked with the group in Hong Kong, the Chinese mainland and Singapore.

TANG, Kin Wing Augustus[#], aged 62, has been Chief Executive Officer and a Director of the Company since August 2019. He was appointed Director Corporate Development of the Company in January 2005 and was an Executive Director of the Company from January 2007 to October 2008. He was a Director and Chief Executive Officer of Hong Kong Aircraft Engineering Company Limited from October 2008 and November 2008 respectively until August 2019. He is also a Director of John Swire & Sons (H.K.) Limited and Chairman of Hong Kong Dragon Airlines Limited. He joined the Swire group in 1982 and has worked with the group in Hong Kong, Malaysia and Japan.

NON-EXECUTIVE DIRECTORS

LOW, Mei Shuen Michelle^{#@}**, aged 60, has been a Director of the Company since October 2017. She is also Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Swire Properties Limited. She joined the Swire group in 1987. She has resigned as a Director of the Company and from these other positions with effect from 1st April 2021.

MURRAY, Martin James^{#@}**, aged 54, became a Director of the Company in November 2011. He was appointed Chief Financial Officer (formerly Finance Director) and served as an Executive Director of the Company from 15th November 2011 until 25th January 2021. He was also a Director of Hong Kong Dragon Airlines Limited and AHK Air Hong Kong Limited. He resigned from these positions with effect from 25th January 2021 and was appointed a Non-Executive Director of the Company with effect from 1st April 2021. He was also appointed Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Swire Properties Limited with effect from 1st April 2021. He joined the Swire group in 1995 and has worked with the group in Hong Kong, the United States, Singapore and Australia.

SONG, Zhiyong, aged 55, has been a Director of the Company since March 2014 and Deputy Chairman since 29th December 2020. He is Chairman and Secretary of the Communist Party Committee of Air China Limited and Chairman and Secretary of the Communist Party Group of China National Aviation Holding Corporation Limited.

SWIRE, Merlin Bingham[#], aged 47, has been a Director of the Company since June 2010. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited and Swire Properties Limited. He is also Deputy Chairman and a shareholder of John Swire & Sons Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, the Chinese mainland and London. He is brother to Samuel Swire, a Non-Executive Director of the Company.

SWIRE, Samuel Compton^{#+}, aged 40, has been a Director of the Company since January 2015. He is also Chairman of The China Navigation Company Pte. Ltd. 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, the Chinese mainland, Sri Lanka and London. He is brother to Merlin Swire, a Non-Executive Director of the Company.

XIAO, Feng^{*@}, aged 52, has been a Director of the Company since January 2017. He is Chief Financial Officer of Air China Limited.

ZHANG, Zhuo Ping[#], aged 49, has been a Director of the Company since April 2020. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited and Chairman of John Swire & Sons (China) Limited. He spent his early career in investment banking. He was with the Swire group from 2002 to 2011, spending much of his time in the Chinese mainland, including as chief representative of John Swire & Sons (China) Limited from 2005 to 2008. He ceased to be employed by the Swire group in 2011, when he left to found a bioengineering company in Beijing.

ZHAO, Xiaohang, aged 59, has been a Director of the Company since June 2011. He is Vice President of China National Aviation Holding Corporation Limited and Air China Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN, Bernard Charnwut⁺ (formerly known as CHAN, Chi Sze Bernard), aged 56, has been a Director of the Company

since December 2018. He is President and an Executive Director of Asia Financial Holdings Limited and Chairman of its wholly owned subsidiary, Asia Insurance Company, Limited and an advisor to Bangkok Bank (China) Company Limited. He is also an Independent Non-Executive Director of Chen Hsong Holdings Limited, China Resources Beer (Holdings) Company Limited and Yau Lee Holdings Limited and a Director of Bumrungrad Hospital Public Company Limited. He is the Convenor of the Non-Official Members of the Executive Council and a former member of the Legislative Council of the Hong Kong Special Administrative Region.

HARRISON, John Barrie^{*@}, aged 64, has been a Director of the Company since May 2015. He is an Independent Non-Executive Director of AIA Group Limited and Grosvenor Asia Pacific 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.

MILTON, Robert Aaron^{*@}, aged 60, has been a Director of the Company since May 2019. He is Lead Independent Director of Air Lease Corporation. He held the position of President and Chief Executive Officer of Air Canada from August 1999 until December 2004. He was Chairman and Chief Executive Officer of ACE Aviation Holdings, Inc., a holding company for Air Canada and other aviation interests from 2004 until June 2012. He was formerly a Director of US Airways, Inc., AirAsia Berhad and TAP Portugal. He was Chairman of United Continental Holdings, Inc., holding company of United Airlines, from April 2016 to April 2018.

TUNG, Lieh Cheung Andrew⁺, aged 56, has been a Director of the Company since May 2015. He is a Director of QBN Management Limited and a Non-Executive Director of Orient Overseas (International) Limited. He is also an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

COMPANY SECRETARY

CHOW, Koon Ying (Paul)[#], aged 49, has been Company Secretary since January 2020. He joined the Company as Group General Counsel on 1st July 2019 and before then he was a partner of Davis Polk & Wardwell LLP.

- [#] Employees of the John Swire & Sons Limited group
- ⁺ Member of the Remuneration Committee
- ^{*} Member of the Audit Committee
- [@] Member of the Board Risk Committee

DIRECTORS' REPORT

We submit our report and the audited financial statements for the year ended 31st December 2020 which are on pages 65 to 133.

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 121 and 122.

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 2020 and the financial position of the Group and the Company at that date are set out in the financial statements on pages 65 to 133. Details of the associates are provided under note 9 to the financial statements.

DIVIDENDS

The Directors decided not to declare an interim dividend for the year ended 31st December 2020.

The Company's dividend policy is to distribute approximately half of its consolidated profit after tax, excluding non-cash exceptional items. The application of this policy and final declarations are however subject to consideration of other factors, such as the strength of the

Company's own statement of financial position, the Company's own profits, trading conditions and the prevailing and forecast economic environment.

CLOSURE OF REGISTER OF MEMBERS

To facilitate the processing of proxy voting for the annual general meeting to be held on 12th May 2021, the register of members will be closed from 7th May 2021 to 12th May 2021, 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, 6th May 2021.

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 Statement, Review of Operations and Financial Review and in the notes to the financial statements. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the section of this annual report headed Review of Operations and Sustainable Development Review. To the

extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's compliance with the relevant laws and regulations that have a significant impact on the Group is provided in the sections of this annual report headed Review of Operations, Corporate Governance Report and Directors' Report.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on page 68 and in note 21 to the financial statements, respectively.

ACCOUNTING POLICIES

The principal accounting policies are set out on pages 123 to 133.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

DONATIONS

During the year, the Company and its subsidiaries made charitable donations amounting to HK\$3 million in direct payments and a further HK\$1 million in the form of discounts on airline travel.

PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment are shown in note 7 to the financial statements. Details of aircraft acquisitions are set out on pages 16 and 17.

BANK AND OTHER BORROWINGS

The net bank loans and other borrowings, including lease liabilities, of the Group are shown in note 11 to the financial statements.

SHARE CAPITAL

On 9th June 2020, the Company announced a recapitalisation proposal which involved, among other things:

- (a) the preference shares and warrants issue, being the issuance by the Company to Aviation 2020 Limited, a limited company wholly owned by the Financial Secretary Incorporated, of (a) 195,000,000 preference shares at the subscription price of HK\$100 per preference share and (b) 416,666,666 warrants which will entitle Aviation 2020 Limited to subscribe for up to 416,666,666 fully paid ordinary shares at the warrant exercise price of HK\$4.68 per share (subject to adjustment); and
- (b) the rights issue, being the issuance of 2,503,355,631 rights shares on the basis of seven rights shares for every 11 existing ordinary shares held by shareholders on 21st July 2020 at the subscription price of HK\$4.68 per share.

Details of the recapitalisation proposal are set out in the Company's announcement dated 9th June 2020, the circular to shareholders dated 19th June 2020 and the prospectus dated 22nd July 2020.

Following approval by shareholders of the Company at the Extraordinary General Meeting held on 13th July 2020 (the "2020 EGM"), the Company issued 2,503,355,631 new ordinary shares at HK\$4.68 each on 10th August 2020, and 195,000,000 preference shares at HK\$100 each and 416,666,666 warrants on 12th August 2020. The details of use of proceeds from the rights issue and the preference shares and warrants issue are set out in note 19 to the financial statements.

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

At 31st December 2020, 6,437,200,203 ordinary shares and 195,000,000 preference shares were in issue (31st December 2019: 3,933,844,572 ordinary shares). Details of the movement of share capital are set out in note 19 to the financial statements.

DIRECTORS' REPORT

ISSUE OF CONVERTIBLE BONDS

On 27th January 2021 (after trading hours), Cathay Pacific Finance III Limited, a wholly-owned subsidiary of the Company, as the Issuer, the Company as the Guarantor, and BNP Paribas Securities (Asia) Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited and Morgan Stanley & Co. International plc as the Managers, entered into the Subscription Agreement in relation to the issuance of 2.75% guaranteed convertible bonds (the "Bonds") in a principal amount of HK\$6,740,000,000.

Assuming full conversion of the Bonds at the initial conversion price of HK\$8.57 per share, the Bonds will be convertible into 786,464,410 conversion shares, representing approximately 12.22% of the total issued share capital of the Company as at 28th January 2021 (the date of the Company's announcement), and approximately 10.89% of the enlarged total issued share capital of the Company resulting from the full conversion of the Bonds (assuming that there is no other change to the issued share capital of the Company and prior to the exercise of any detachable warrants that were issued in 2020 as part of the recapitalisation plan). The gross proceeds from the subscription of the Bonds amounted to HK\$6,740,000,000.

For further details of the convertible bonds, please refer to the Company's announcements dated 28th January 2021 and 8th February 2021.

CAPITAL COMMITMENTS AND CONTINGENCIES

The details of capital commitments and contingent liabilities of the Group at 31st December 2020 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, Patrick Healy, Gregory Hughes, Ronald Lam, Michelle Low, Rebecca Sharpe, Merlin Swire, Samuel Swire, Augustus Tang and Zhang Zhuo Ping are interested in the JSSHK Services Agreement (as defined below). Martin Murray will also be so interested on his

becoming a Non-Executive Director on 1st April 2021. Merlin Swire and Samuel Swire are also so interested as shareholders, directors and employees of the Swire group. Ivan Chu was so interested as a director and an employee of the Swire group until his resignation with effect from 14th April 2020.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2020 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 4.7% of the Group's operating expenses in 2020. 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 2020, 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 and 9th August 2019, 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, certain staff services (including full or part time services of members of the staff of the Swire group), certain central 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 procurement obligation or such use.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Group's consolidated profit before taxation and non-controlling interests after certain adjustments. The fees for each

year are payable in cash 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 Group 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 2020 to 31st December 2022 and it is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Swire is the holding company of Swire Pacific which owns approximately 45% of the number of issued shares of the Company and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the JSSHK Services Agreement are continuing connected transactions in respect of which announcements dated 1st December 2004, 1st October 2007, 1st October 2010, 14th November 2013, 19th August 2016 and 9th August 2019 were published.

For the year ended 31st December 2020, no service fee was payable by the Company to JSSHK under the JSSHK Services Agreement and expenses of HK\$197 million were reimbursed at cost.

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

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

December 2013 was sent to shareholders and an extraordinary general meeting of the Company was held on 31st December 2013.

For the year ended 31st December 2020 and under the HAECO Framework Agreement, the amounts payable by the Group to the HAECO group totalled HK\$2,762 million; and the amounts payable by the HAECO group to the Group totalled HK\$38 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 2022 and it is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Air China, by virtue of its 29.99% shareholding in Cathay Pacific, is a substantial shareholder and therefore a connected person of Cathay Pacific under the Listing Rules. The transactions under the Air China Framework Agreement are continuing connected transactions in respect of which announcements dated 26th June 2008, 10th September 2010, 26th September 2013, 30th August 2016 and 28th August 2019 were published.

For the year ended 31st December 2020 and under the Air China Framework Agreement, the amounts payable by the Group to the Air China group totalled HK\$70 million; and the amounts payable by the Air China group to the Group totalled HK\$50 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:

DIRECTORS' REPORT

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or better; and
- (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

- (a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board of the Company;
- (b) nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;
- (c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the relevant annual caps.

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

MAJOR CUSTOMERS AND SUPPLIERS

8% of sales and 29% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 6% of sales were made to the Group's largest customer and 9% of purchases were made

from the Group's largest supplier, Petrochina International (Hong Kong) Corporation Limited.

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

Zhang Zhuo Ping was appointed as a Director with effect from 14th April 2020. Rebecca Sharpe was appointed as a Director with effect from 25th January 2021. All the other present Directors of the Company whose names are listed in the section of this annual report headed Directors and Officers served throughout the year 2020. Ivan Chu resigned as a Director with effect from 14th April 2020. Cai Jianjiang resigned as Deputy Chairman and a Director with effect from 29th December 2020. Song Zhiyong was elected Deputy Chairman with effect from 29th December 2020. Michelle Low resigned as a Director with effect from 1st April 2021. Martin Murray served as an Executive Director until his resignation with effect from 25th January 2021 and has been appointed as a Non-Executive Director with effect from 1st April 2021.

Carlson Tong and Rimsky Yuen have been designated by the Government of HKSAR as observers to attend board meetings and have access to management and information of the Company as long as Aviation 2020 Limited remains a holder of any of the preference shares of the Company or any amount under the bridge loan provided by it remains outstanding.

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, Gregory Hughes, Samuel Swire and Zhao Xiaohang retire this year and, being eligible, offer themselves for re-election. Martin Murray and Rebecca

Sharpe 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\$3.3 million. They received no other emoluments from the Group. The four Independent Non-Executive Directors agreed to have their Directors' fees and the committee fees reduced for 2020 in recognition of the adverse effect of COVID-19.

DIRECTORS' INTERESTS

At 31st December 2020, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interests in the shares of Cathay Pacific Airways Limited and its associated corporation (within the meaning of Part XV of the SFO), Air China Limited:

	Capacity	No. of shares	Percentage of voting shares (%)
Cathay Pacific Airways Limited			
Michelle Low	Beneficial owner	1,630	0.00003
Merlin Swire	Trust interest (note)	30,000	0.00047
Air China Limited			
Michelle Low	Beneficial owner	40,000	0.00028

Note: All shares held by Merlin Swire under Trust interest were held by him as one of the executors of a will and he did not have any beneficial interest in those shares.

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.

At no time during the year was the Company, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, Patrick Healy, Cai Jianjiang 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 2020 or during the period from 1st January 2021 to the date of this Report are kept at the Company's registered office and made available for inspection by the members of the Company in accordance with Section 390(6) of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

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

DIRECTORS' REPORT

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 2020 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	4,827,269,423	74.99	Attributable interest (a)
2. China National Aviation Holding Corporation Limited	4,827,269,423	74.99	Attributable interest (b)
3. Swire Pacific Limited	4,827,269,423	74.99	Attributable interest (a)
4. John Swire & Sons Limited	4,827,269,423	74.99	Attributable interest (c)
5. Qatar Airways Group Q.C.S.C.	643,076,181	9.99	Beneficial interest (d)
6. The Financial Secretary Incorporated	416,666,666	6.47	Interest in controlled corporation (e)

Note: At 31st December 2020:

- (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 4,827,269,423 shares of the Company, comprising:
- (i) 2,896,753,089 shares directly held by Swire Pacific;
- (ii) 1,930,516,334 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: 472,248,545 shares held by Angel Paradise Ltd., 351,574,615 shares held by Custain Limited, 314,054,626 shares held by Easerich Investments Inc., 310,870,873 shares held by Grand Link Investments Holdings Ltd., 339,343,616 shares held by Motive Link Holdings Inc. and 142,424,059 shares held by Perfect Match Assets Holdings Ltd.
- (b) China National Aviation Holding Corporation Limited is deemed to be interested in a total of 4,827,269,423 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 4,827,269,423 shares of the Company by virtue of the Swire group being interested in 55.20% of the equity of Swire Pacific and controlling 64.28% of the voting rights attached to shares in Swire Pacific.
- (d) Qatar Airways Group Q.C.S.C. held a total of 643,076,181 shares of the Company as beneficial owner.
- (e) (i) Aviation 2020 Limited, a limited company wholly owned by the Financial Secretary Incorporated, did not hold any ordinary shares of the Company; (ii) pursuant to a subscription agreement dated 9th June 2020 entered into between the Company and Aviation 2020 Limited in relation to the issue of preference shares and warrants, the Company issued 416,666,666 warrants to Aviation 2020 Limited on 12th August 2020, which entitle Aviation 2020 Limited to subscribe for up to 416,666,666 ordinary shares of the Company; (iii) if Aviation 2020 Limited chooses to exercise all warrants, it would hold approximately 6.08% of the ordinary shares of the Company as enlarged by the issue of such shares.

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.

KPMG as Auditors to the Company is to be proposed at the forthcoming annual general meeting.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of

By order of the Board

Patrick Healy

Chairman

Hong Kong, 10th March 2021

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:

CORPORATE GOVERNANCE REPORT

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements, including financial statements
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates
- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- reviewing the board diversity policy with a view to the Board having a balance of skills, experience and diversity of perspectives appropriate to the Company's businesses
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of the Group's risk management and internal control systems
- ensuring the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

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

Patrick Healy, 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.

Augustus Tang, the Chief Executive Officer, 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 in the section of this annual report headed Directors and Officers and are posted on the Company's website.

Patrick Healy, Gregory Hughes, Ronald Lam, Martin Murray, Rebecca Sharpe, Augustus Tang and Zhang Zhuo Ping are directors and/or employees of the Swire group. Merlin Swire and Samuel Swire are shareholders, directors and employees of the Swire group.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit, Board Risk 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. None of the Independent Non-Executive Directors holds cross-directorships or has significant links with other Directors through involvements in other companies or bodies.

The Independent Non-Executive Directors:

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

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

APPOINTMENT AND RE-ELECTION

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

Executive and Non-Executive Directors are subject to re-election by shareholders every three years.

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

On 10th March 2021, the Board, having reviewed the Board's composition, nominated Gregory Hughes, Martin Murray, Samuel Swire, Rebecca Sharpe and Zhao Xiaohang for recommendation to shareholders for re-election at the 2021 Annual General Meeting. The nominations were made in accordance with objective criteria (including gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders), with due regard for the benefits of diversity, as set out in the board diversity policy. The Board also took into account the respective contributions of Gregory Hughes, Martin Murray, Samuel Swire, Rebecca Sharpe and Zhao Xiaohang to the Board and their firm commitment to their roles. The particulars of the Directors standing for re-election are set out in the section of this annual report headed Directors and Officers and will also be set out in the circular to shareholders to be distributed with this annual report and posted on the Company's website.

Full details of changes in the Board during the year and to the date of this report are provided in the section of this annual report headed Directors' Report.

BOARD DIVERSITY

The Board has adopted a board diversity policy, which is available on the Company's website. The Board's composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Company's strategy, governance and business and contribute to the Board's effectiveness. A summary is set out in the table below:

Age	39-47 years (13%)	48-56 years (50%)	57-65 years (37%)
Gender	Male (87%)	Female (13%)	
Ethnicity	American (6%)	Australian (6%)	British (38%)
			Chinese (50%)
Years of service as Director	1-5 years (63%)	6-10 years (31%)	over 10 years (6%)
Skills, expertise and experience	company executive (75%)	accounting, banking and finance (25%)	

CORPORATE GOVERNANCE REPORT

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

RESPONSIBILITIES OF DIRECTORS

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

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

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

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

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

Details of Directors' other appointments are shown in their biographies in the section of this annual report headed Directors and Officers.

BOARD PROCESSES

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

The dates of the 2020 Board meetings were determined in 2019 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 nine times in 2020. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 47. Average attendance at Board meetings was 99%. 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 Officer 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 the Board's 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 Independent Non-Executive Directors without the presence of other Directors.

	Meetings Attended/Held						2020 Annual General Meeting	2020 EGM
	Board	Audit Committee	Board Risk Committee	Remuneration Committee	Finance Committee	Board Safety Review Committee		
Executive Directors								
Patrick Healy – Chairman	9/9	3/3	4/4		11/12	3/3	✓	✓
Gregory Hughes	9/9				12/12	3/3	✓	✓
Ronald Lam	9/9				11/12	3/3	✓	✓
Martin Murray	9/9	3/3	4/4		12/12		✓	✓
Augustus Tang	9/9	3/3	4/4		12/12	3/3	✓	✓
Non-Executive Directors								
Cai Jianjiang (resigned with effect from 29th December 2020)	9/9					0/3	X	X
Ivan Chu (resigned with effect from 14th April 2020)	1/2					N/A	N/A	N/A
Michelle Low	9/9	3/3	4/4		12/12	3/3	✓	✓
Song Zhiyong	9/9					0/3	X	X
Merlin Swire	9/9					3/3	✓	✓
Samuel Swire	9/9			3/3		3/3	✓	X
Xiao Feng	9/9	3/3	4/4		12/12	0/3	X	✓
Zhang Zhuo Ping (appointed on 14th April 2020)	7/7					2/3	✓	✓
Zhao Xiaohang	9/9	3/3			12/12	0/3	X	X
Independent Non-Executive Directors								
Bernard Chan	9/9			3/3		3/3	X	✓
John Harrison	9/9	3/3	4/4			3/3	✓	✓
Robert Milton	9/9	3/3	4/4			3/3	✓	✓
Andrew Tung	9/9	3/3		3/3		3/3	✓	✓
Average attendance	99%	100%	100%	100%	98%	73%	71%	76%

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

Throughout the year, continuous professional development for directors was conducted through the following:

- (a) directors attended training from the Company's external legal advisers about external updates on various applicable laws and regulations and topics pertinent to the business of the Company;
- (b) directors were provided with training materials about matters relevant to their duties as directors; and
- (c) directors were invited to attend seminars and conferences about financial, commercial, economic, legal, regulatory and/or business affairs.

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 Officer. The Chief Executive Officer 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 2020 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out in the section of this annual report headed Directors' Report.

The following committees have been established to assist the Board in discharging its responsibilities:

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 (Captain Timothy Jenkins) and all the Non-Executive Directors and Independent Non-Executive Directors of the Company. Four Executive Directors and the Chief Executive Officer of Hong Kong Dragon Airlines Limited also attend as observers.

EXECUTIVE COMMITTEE

The Executive Committee comprises the Chief Executive Officer (Augustus Tang) (Committee Chairman), three other Executive Directors (Gregory Hughes, Ronald Lam and Rebecca Sharpe) and four Non-Executive Directors (Michelle Low, Song Zhiyong, Xiao Feng and Zhao Xiaohang). Martin Murray will succeed Michelle Low as a member of the Executive Committee on his becoming a Non-Executive Director on 1st April 2021.

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 Officer (Augustus Tang) and comprises three other Executive Directors (Gregory Hughes, Ronald Lam and Rebecca Sharpe), three Non-Executive Directors (Michelle Low, Xiao Feng and Zhao Xiaohang), General Manager Financial Services (Della Ng), the Head of Treasury (Priscilla Li) and an independent representative from the financial community. Martin Murray will succeed Michelle Low as a member of the Finance Committee on his becoming a Non-Executive Director on 1st April 2021.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three Non-Executive Directors (Andrew Tung, Bernard Chan and Samuel Swire). Two of the Committee Members are Independent Non-Executive Directors, one of whom, Andrew Tung, is Chairman. All the members served for the whole of 2020.

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 (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. Full details of the remuneration of the Directors are provided in note 25 to the financial statements.

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, 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 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.

CORPORATE GOVERNANCE REPORT

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 at its meetings in October and December 2020. At the meeting held in October 2020, 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, 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:

Fee	2020 HK\$	2021 HK\$
Director's Fee	575,000	575,000
Fee for Audit Committee Chairman	268,000	268,000
Fee for Audit Committee Member	186,000	186,000
Fee for Board Risk Committee Chairman	268,000	268,000
Fee for Board Risk Committee Member	186,000	186,000
Fee for Remuneration Committee Chairman	83,000	83,000
Fee for Remuneration Committee Member	60,000	60,000

BOARD RISK COMMITTEE – see pages 51 to 53

AUDIT COMMITTEE – see pages 55 and 56

ACCOUNTABILITY AND AUDIT

1. 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.

2. RISK MANAGEMENT

Governance

The Cathay Pacific Group's commitment to Operational Safety has been implemented through systematic and thorough processes supported by focussed risk management governance infrastructure including:

- A Board Safety Review Committee chaired by an independent industry expert
- A Management Safety Committee chaired by the Chief Executive Officer
- A Group Safety & Operational Risk Management Department headed by the Group Safety Officer that provides oversight of the management of all risks associated with flight operations.

In 2019 the Board determined that the Group should introduce similar governance to enhance and provide a parallel focus on the management of all other corporate risks in the Group. Accordingly, the following entities were established:

- Board Risk Committee (BRC) – a Board level committee whose membership is exclusively Non-Executive Directors. The Committee's role is to advise the Board and oversee implementation of all Board decisions on all matters relating to risk. This includes the setting and monitoring of risk appetite, the effectiveness of the risk management framework "RMF" and the soundness of the Group's risk culture.
- Risk Management Committee (RMC) – an executive committee chaired by the Chief Executive Officer responsible for the design, delivery and direct oversight of the RMF and, through it, the management of all corporate risks within the Company.

- Group Corporate Risk Department – headed by a Chief Risk Officer reporting to the Chief Executive Officer. This department has specific responsibility for developing, maintaining and ensuring the effectiveness of the RMF.

Board Risk Committee

The Board Risk Committee, consisting of four Non-Executive Directors (John Harrison, Michelle Low, Robert Milton and Xiao Feng), was established on 1st July 2019 and is charged with supporting the Board in its responsibility for all risk management within the Group, focusing solely on risks not related to safety and security arising from the Company's flight operations (which are overseen by the Board Safety Review Committee). In particular, the Board Risk Committee is charged with overseeing the ongoing implementation and development of the Company's RMF, and for ensuring its effectiveness. Two of the Committee members are Independent Non-Executive Directors, one of whom, Robert Milton, is Chairman. Martin Murray will succeed Michelle Low as a member of the Board Risk Committee with effect from 1st April 2021 on his becoming a Non-Executive Director. All the others members served throughout 2020.

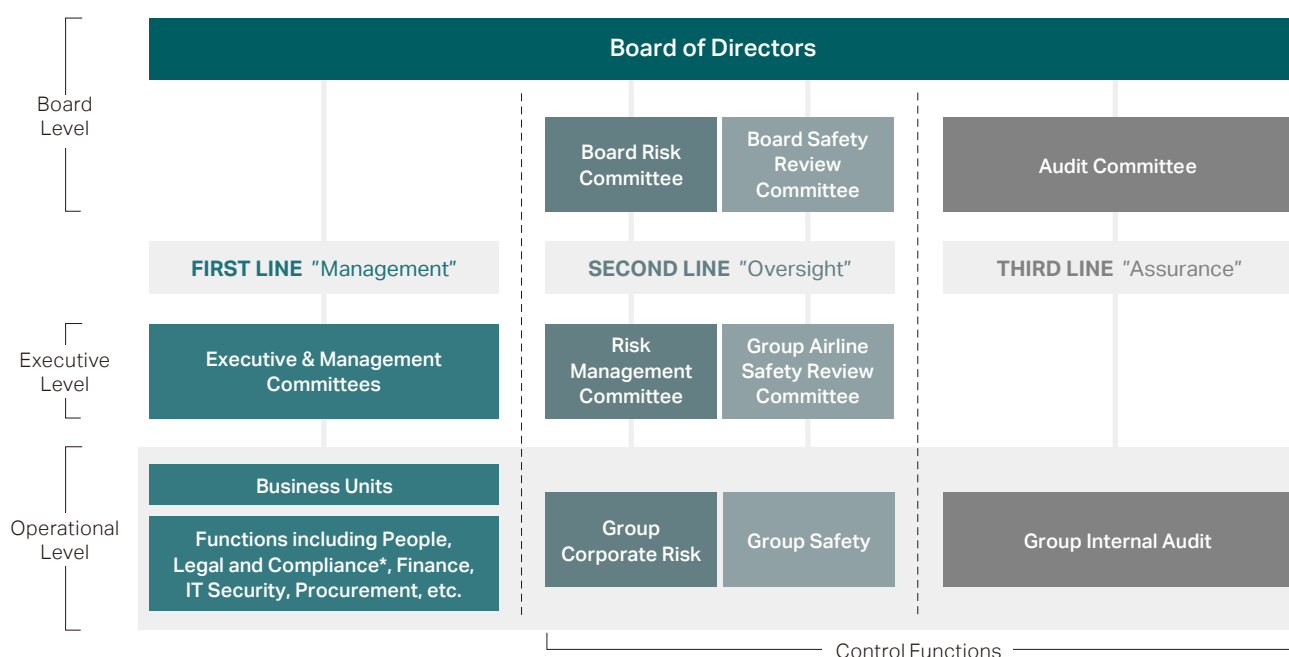
The Board Risk Committee met quarterly in 2020. Regular attendees at the meetings are the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Group General Counsel, and the General Manager, Group Internal Audit.

The Cathay RMF is founded on the principle of 'three lines of defence', a model widely used in financial services institutions, and one that is designed to avoid conflicts of interest whereby managers review or oversee their own activities. The three lines divide as follows:

- Business or specialist functions that are directly involved in business management activities or executive decision making are classified as First Line
- Functions that oversee, advise and support the First Line in managing the risks associated with those activities are considered Second Line
- Group Internal Audit, which provides overall assurance to the Board as to the effectiveness of the Company's risk management processes and controls, is classified as Third Line.

The application of the three lines of defence model within Cathay's risk governance framework is shown in Fig. 1.

RISK GOVERNANCE OVERVIEW



Note: It is recognised that Legal and Compliance sits between first and second lines; for practical purposes they are included in the first line.

CORPORATE GOVERNANCE REPORT

Core Principles

The first core principle of the RMF is that the Board has overall responsibility for the systems, processes and conduct of risk management. The Board's responsibilities in this regard have been defined as ensuring that:

- Material risks have been identified, defined and prioritised according to their potential impacts on all stakeholders.
- Reasonable steps have been taken or are in place to mitigate these risks and their impacts.
- Plans are in place to deal with any risk event that occurs to ensure that the safety, wellbeing and financial condition of all stakeholders is protected or restored to the greatest extent reasonably possible.
- A sound risk culture is in place. This is defined as an operating environment in which the principle that the pursuit of results must be achieved within the risk parameters set by the Board is promoted and practised by all staff.

The second core principle of the RMF is that the Business is responsible for managing risk. The risk management function is expected to engage fully to support them, providing ideas, expertise and advice. In particular, Group Corporate Risk's role is to ensure that the First Line takes decisions objectively and in full possession of all relevant information.

The latter principle is embedded into the Group's businesses through the appointment of First Line 'risk owners' who have responsibility for identifying and monitoring emerging and developing risks across one or more business areas. Risk owners are responsible for escalating any breaches or potential incidents to Group Corporate Risk.

Risk Management Process

The management of risk is conducted in three stages: identification, assessment and mitigation.

Identification

Cathay Pacific and its major subsidiaries retain risk registers, under the supervision of Group Corporate Risk, that are used by management to prioritise risk management activities. These risk registers have historically been updated semi-annually and feed into the Group register.

In addition to this bottom-up assessment, from 2019 the risk registers have been enhanced via the medium of annual workshops conducted with senior managers from across the Group. These workshops have sought to identify risks across the organisation including macro, strategic and operational issues. The output from these workshops is compiled into a list of the 'Top 30' corporate risks which forms the initial focus of senior management attention.

In addition to the top corporate risks, a structured approach to managing the Group's Environmental, Social and Governance (ESG) risks was developed. This approach is based on a risk taxonomy specifically defined to identify, assess and mitigate ESG risks across the business. All identified ESG risks are reported to the RMC and the BRC and incorporated into the existing registers.

Assessment

Each of the Top 30 risks is then 'dimensioned' by subject matter experts within the business supported by the Group Corporate Risk function. The dimensioning process considers and identifies the:

- potential impact of the risk across a number of dimensions; safety, reputation, financial, strategic, regulatory and disruption
- vulnerability of the organisation to risk events arising from it
- speed with which a risk event might develop
- linkages of the risk with other risks i.e. the potential for risk events to compound
- specific scenarios in which a risk event might occur or to which the organisation may be vulnerable; and
- areas of the Company that are most susceptible to that risk.

An internal risk scoring system is then used to summarise the overall magnitude of the risk which is then placed onto a risk heatmap together with the rest of the Top 30.

Impact and vulnerability assessments are subject to dynamic updates by the Group Corporate Risk function working with the business and risk owners.

Mitigation

As part of the dimensioning exercise, mitigation measures are also considered that might reduce either impact and/

or vulnerability. A programme of mitigation measures are agreed and packaged into a recommended action plan which is put to management for approval. The action plan is monitored as part of the risk management process with progress reported to the Risk Management Committee. Through this approach the Board and management can see tangible improvements in systems and processes resulting from this process. Improvements are also reflected in risk scores as action plans are delivered.

Areas of the business particularly susceptible to Top 30 risks, and controls which are considered critical to the mitigation of these major risks, are also prioritised for review as part of the internal audit plan which is prepared in conjunction with risk management.

Oversight and Reporting of the RMF

The structure, conduct and conclusions of the Group's risk management activities including mitigation measures and action plans are subject to review by both the Risk Management and Board Risk Committees. The Chairman of the Board Risk Committee reports on these activities to the Board as a standing agenda item.

Provision is made in the Terms of Reference for the Board Risk Committee to conduct an annual 'assurance review' whose conclusions will be presented to the Board on an annual basis.

The review will solicit both internal stakeholder and independent opinions as to the effectiveness of the RMF, and may also include a review of notable risk events that have occurred during the year, focussing particularly on the effectiveness with which they were managed according to the principles described above. The Company's success in identifying and anticipating emerging risks may also be considered as part of this review.

Areas of Focus in 2020

Focus in 2020 has been on identifying and managing risk related to the ongoing COVID-19 pandemic, dimensioning the Top 30 risks and establishing mitigation plans around these, and continuing to monitor Data Governance and Cybersecurity, where ongoing actions related to building resilience across the Group have been reviewed and progress tracked. These have included retention governance and data exposure risk as well as ongoing cyber security protections to meet industry best practice.

The emergence of COVID-19 and its impact on the Group's revenue and cash flow propelled it to the top of the risk register by May; July's recapitalisation successfully mitigated its impact on the Group's cash position, which was further mitigated by a wide-ranging restructure in late October. Nonetheless the pandemic remains the top risk facing the business given its ongoing revenue and operational impacts; this is likely to remain the case until we see the widespread availability of successful vaccines, the uplifting of travel restrictions and the return of confidence in travel. The impact of 2019's social unrest combined with developments in Hong Kong this year and the international media coverage of and response to them may continue to threaten the attractiveness of Hong Kong as a business and leisure destination and transit hub once travel returns. The competitiveness of Hong Kong International Airport in the Greater Bay Area is also key to the effectiveness of the Hong Kong hub going forwards. Other risks we have been tracking closely this year are those related to third parties, many of whose businesses have also been heavily impacted by the pandemic, operational technologies and climate change - for which a scenario planning exercise will be performed to provide input into the Group's longer term strategy.

Workshops were conducted with middle management across the year to identify emerging risks to the Group, to identify and score risks related to each of the Group's subsidiaries, and to establish necessary mitigation plans around these. A survey of risk culture was undertaken with attendees of the workshops in mid-year, which provided the basis of the Board Risk Committee's assurance review this year. It demonstrated significant progress had been made in enhancing risk culture and risk management effectiveness since the establishment of the new governance and RMF in 2019.

3. INTERNAL CONTROL

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 55 and 56.

The foundation of 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.

CORPORATE GOVERNANCE REPORT

The key components of the Group's internal 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 Group 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 Group has a Code of Conduct, which is posted on its internal intranet site.

The Group 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 Group'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 Group'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.

Controls and review: 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. This process and its results are reviewed by the Group internal auditors and form part of the Audit Committee's annual assessment of control effectiveness.

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 Group 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.

Group Internal Audit Department

The Group 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. It performs regular reviews of key risk areas and monitors compliance with Group financial, operational and compliance procedures. The audit plan, which is prepared based on risk assessment methodology, is discussed and agreed every year with the Audit Committee, together with the required resources. In addition to its agreed annual schedule of work, the Department conducts other special reviews as required. The General Manager, Group Internal Audit has direct access to the Audit Committee. Audit reports are sent to the Chief Executive Officer, the Chief Financial Officer, 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 regularly to the Audit Committee and reviewed quarterly by the Board. 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 Group Internal Audit Department and also the corrective actions taken by relevant departments.

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.

Audit Committee

The Audit Committee, consisting of five Non-Executive Directors (John Harrison, Michelle Low, Robert Milton, Andrew Tung and Xiao Feng), assists the Board in discharging its responsibilities for internal control and other matters. Three of the Committee members are Independent Non-Executive Directors, one of whom, John Harrison, is Chairman. Martin Murray will succeed Michelle Low as a member of the Audit Committee with effect from 1st April 2021 on his becoming a Non-Executive Director. All the other members served for the whole of 2020.

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 2020. Regular attendees at the meetings are the Chief Executive Officer, Chief Financial Officer, Group General Counsel, General Manager, Group Internal Audit and representatives of the external auditor. 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 Group Internal Audit.

The work of the Committee during 2020 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2019 annual and 2020 interim reports and announcements, with recommendations to the Board for approval
- the plans, cash flows and liquidity of the Group
- the Group's compliance with certain regulatory and statutory requirements
- the Group's internal control systems
- the approval of the 2021 annual Internal Audit programme and review of progress on the 2020 programme
- periodic reports from Group 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 56
- the Company's compliance with the CG Code
- the Company's whistleblowing policy, diversity & inclusion policy, anti-harassment policy, non-discrimination policy and sustainable development policy.

In 2021, the Committee has reviewed, and recommended to the Board for approval, the 2020 financial statements.

Assessing the Effectiveness of Risk Management and Internal Control Systems

On behalf of the Board, the Audit Committee and the Board Risk Committee (in relation to risk management) review 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

CORPORATE GOVERNANCE REPORT

Group Internal Audit and the assurances provided by the Chief Financial Officer

- 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 Group's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Group Internal Audit
- work programmes proposed by both Group 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.

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 are not, and are 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 2020 the total remuneration paid to the external auditors was HK\$24 million, being HK\$16 million for audit, HK\$5 million for tax advice and HK\$3 million for other professional services.

4. MANAGEMENT COMMITTEE

The Management Committee meets monthly and is responsible for overseeing the day-to-day operation of the Company. It comprises the Chief Executive Officer (Augustus Tang) (Committee Chairman), Chief Operations and Service Delivery Officer (Gregory Hughes), Chief Customer and Commercial Officer (Ronald Lam), Chief Financial Officer (Rebecca Sharpe), Director Engineering (Neil Glenn), Director People (Patricia Hwang), Director Flight Operations (Captain Chris Kempis), Chief Risk Officer (Philippe Lacamp), Director Customer (Simon Large), Director Commercial (Lavinia Lau), Director Service Delivery (Alex McGowan), Director Cargo (Tom Owen) and Group General Counsel (Paul Chow).

In addition, a number of other committees consisting of members of management have been established to assist and report to the Management Committee from time to time. These committees are typically established to cover specialist areas such as safety operations, sustainable development and data governance.

OTHER MATTERS

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.

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
- has adopted an inside information policy which provides a framework for escalating inside information matters to the Board.

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 Chief Financial Officer 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 Chief Financial Officer 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 Group'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

CORPORATE GOVERNANCE REPORT

- through publication of interim and annual reports
- through the Annual General Meeting as discussed below.

Shareholders may send their enquiries and concerns to the Board by post or email at ir@cathaypacific.com.

The relevant contact details are set out in the section of this annual report headed Corporate and Shareholder Information.

THE ANNUAL GENERAL MEETING

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 23rd June 2020. The meeting was open to all shareholders. The Directors who attended the meeting are shown in the table on page 47.

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 2019
- electing/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 Group's website.

DIVIDEND POLICY

Cathay Pacific has a policy on the payment of dividends, which is set out in the section of this annual report headed Directors' Report.

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 2021 are set out in the section of this annual report headed Corporate and Shareholder Information.

CONSTITUTIONAL DOCUMENTS

At the 2020 EGM, the adoption of a new articles of association of the Company (the "New Articles") was approved by shareholders of the Company. A number of amendments were made to the previous articles of association of the Company to reflect the terms of the preference shares and to bring the previous articles of association in line with the Companies Ordinance which became effective on 3rd March 2014. Details of the amendments were set out in Appendix IV to the circular to the shareholders dated 19th June 2020. The New Articles (in both English and Chinese) is available on the websites of both the Company and the Hong Kong Exchanges and Clearing Limited.

INDEPENDENT AUDITOR'S REPORT



*To the members 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 65 to 133, which comprise the consolidated statement of financial position as at 31st December 2020, 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 2020 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.

INDEPENDENT AUDITOR'S REPORT

ASSESSING IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Refer to accounting policies 2, 5, 6 and 7 and notes 7, 8 and 32 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>The carrying values of the Group's property, plant and equipment and intangible assets were HK\$131,925 million and HK\$15,061 million respectively as at 31st December 2020.</p> <p>At the end of each reporting period, management identifies assets which are unlikely to be deployed in economic service in the future, and impairment losses are recorded based on the assets' estimated fair value less costs of disposal. The remaining items of property, plant and equipment and intangible assets are allocated to cash-generating units ("CGUs"). Where indicators of impairment of a CGU are identified, management performs an impairment assessment of the CGU by comparing its carrying value with its recoverable amount, which is the higher of fair value less costs of disposal and value in use based on discounted cash flow forecasts. In addition, for CGUs containing goodwill, an impairment assessment is performed at least annually even if there is no indicator of impairment.</p> <p>The COVID-19 pandemic has resulted in reduced travel demand and on 21st October 2020, the Group announced a restructuring plan which includes the cessation of operations of its subsidiary, Hong Kong Dragon Airlines Limited. The Group has therefore reassessed its operating plans including the expected timing of retirement of aircraft.</p> <p>As a result of management's reassessment, impairment losses of HK\$4,012 million were recognised on property, plant and equipment and goodwill for the year ended 31st December 2020, which primarily included HK\$2,764 million on the aircraft and related equipment of Cathay Pacific Airways Limited and Hong Kong Dragon Airlines Limited, and HK\$1,223 million on other items of property, plant and equipment and goodwill relating to two subsidiaries, Cathay Pacific Catering Services (H.K.) Limited and Vogue Laundry Service Limited.</p> <p>We identified the assessment of impairment of property, plant and equipment and intangible assets as a key audit matter because of the significance of the carrying value of such assets to the consolidated financial statements and because the preparation of discounted cash flow forecasts for the purpose of impairment assessments involves identifying assets which are unlikely to be deployed in economic service in the future, and estimating future cash flows, growth rates and discount rates, which are subject to a significant degree of judgement and could be subject to management bias.</p>	<p>Our audit procedures to assess the impairment of property, plant and equipment and intangible assets included the following:</p> <ul style="list-style-type: none"> • meeting with management and reviewing board minutes and other papers to understand the impact of COVID-19 on the Group, the mitigation strategies adopted by the Group, and how these are reflected in the Group's restructuring plan; • assessing management's identification of assets which are unlikely to be deployed in economic service in the future by obtaining the Group's asset utilisation plan, and evaluating their recoverable amount; • assessing management's identification of the CGUs and the allocation of assets to the CGUs for the purpose of impairment assessment; • discussing indicators of impairment of property, plant and equipment and intangible assets with management, and for CGUs where such indicators were identified and CGUs with goodwill, assessing whether management had performed impairment testing in accordance with the requirements of the prevailing accounting standards; • involving our internal valuation specialists to assess the methodology and significant assumptions including discount rates adopted by management in its impairment assessments; • evaluating the assumptions adopted in the preparation of the discounted cash flow forecasts, including projected future growth rates for income and expenses and discount rates with reference to our understanding of the business, historical trends and available industry information and market data; • performing sensitivity analyses on the key assumptions, including projected profitability, expected growth rates and discount rates adopted in the discounted cash flow forecasts and assessing whether there were any indicators of management bias in the selection of these assumptions.

REVENUE RECOGNITION

Refer to accounting policies 18 and 19 and notes 1 and 18 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>Passenger and cargo sales are recognised as revenue when the related transportation service is provided. The value of the sales for which the related transportation service has not yet been provided at the end of the reporting period, adjusted for breakage, is recorded as a contract liability.</p> <p>The value attributed to programme awards under the Group's customer loyalty programme, Asia Miles, is recognised as a contract liability. This 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 amount is subsequently recognised as income when the related goods or services are provided subsequent to the redemption of the Asia Miles. Management allocates the amount received in relation to mileage earning flights, based on stand-alone selling price, between the flight and Asia Miles earned by members of the programme.</p> <p>The Group maintains sophisticated information technology ("IT") systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation of Asia Miles.</p> <p>We identified revenue recognition as a key audit matter because revenue is one of the Group's key performance indicators and it involves complicated IT systems and allocation of revenue between flights and Asia Miles, all of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.</p>	<p>Our audit procedures to assess revenue recognition included the following:</p> <ul style="list-style-type: none"> assessing the design, implementation and operating effectiveness of management's general IT controls and key application controls over the Group's IT systems which govern revenue recognition, including access controls, controls over programme changes, interfaces between different systems and key manual internal controls over revenue recognition; performing analytical procedures on passenger and cargo revenue by developing an expectation using independent inputs and information generated from the Group's IT systems and comparing such expectations with recorded revenue; inspecting underlying documentation for journal entries which met specified risk-based criteria; assessing management's allocation of the amount received in relation to mileage earning flights between the flight and Asia Miles earned by members of the programme, with reference to the prices for third party Asia Miles sales and assessing whether or not there was an indication of management bias; inspecting the key terms and conditions of contracts with major partners of the Asia Miles programme to assess if there were any terms and conditions that may have affected the accounting treatment of the related Asia Miles.

HEDGE ACCOUNTING

Refer to accounting policy 10 and notes 10, 12, 15, 17, 21 and 29 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>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. Hedge accounting under HKFRS 9 is applied to a majority of these arrangements, and related contracts gave rise to derivative financial assets of HK\$333 million and derivative financial liabilities of HK\$1,387 million as at 31st December 2020.</p> <p>The decline in forecast flying activity and fuel consumption due to the COVID-19 pandemic resulted in a discontinuation of certain hedging relationships during 2020 as the hedged items are no longer considered to be highly probable. The related amounts accumulated in other comprehensive income have been transferred to profit or loss upon discontinuation if the hedged items are no longer expected to occur.</p> <p>We identified hedge accounting (including the valuation of hedging instruments) as a key audit matter because hedge accounting can be complex and the Group has entered into a large number of derivative contracts and designated them as hedging instruments, necessitating a sophisticated system to record and track each hedging relationship. In addition, the valuation of hedging instruments can involve a significant degree of both complexity and management judgement, and hence is subject to an inherent risk of error. Furthermore, economic uncertainties caused by the COVID-19 pandemic have resulted in increased judgement being required for forecasting travel demand and fuel consumption for the purpose of hedge designation and evaluating whether a hedging relationship continues to meet the qualifying criteria.</p>	<p>Our audit procedures to assess hedge accounting included the following:</p> <ul style="list-style-type: none"> assessing the design, implementation and operating effectiveness of management's key internal controls over derivative financial instruments and the application of hedge accounting; obtaining written confirmations from contract counterparties for derivative financial instruments that existed at the reporting date on a sample basis; inspecting management's hedge documentation and contracts, on a sample basis, for the purpose of assessing whether the designation of hedging relationships was in accordance with the requirements of HKFRS 9; discussing with management the assumptions used in forecasting flying activity and fuel consumption, and challenging and performing sensitivity analysis on these estimates based on different possible COVID-19 recovery scenarios; assessing hedge effectiveness and re-performing calculations of hedge ineffectiveness on a sample basis and testing the discontinuation of hedging relationships where the hedged forecast transaction is no longer considered to be highly probable; engaging our financial instruments valuation specialists to re-perform year end valuations of derivative financial instruments on a sample basis and compare these valuations with those recorded by the Group.

INDEPENDENT AUDITOR'S REPORT

ASSESSMENT OF PROVISIONS FOR TAXATION, LITIGATION AND CLAIMS

Refer to accounting policy 22 and notes 4, 17 and 28 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group operates in various jurisdictions and, during the normal course of its business, has received queries from and has disputes with various taxation authorities. The Group is also the subject of legal actions and regulatory enquiries in certain jurisdictions as outlined in note 28(d) to the consolidated financial statements.</p> <p>Provisions for taxation, litigation and claims represent management's best estimates of the amounts likely to be required to settle these matters. The amount recorded at 31st December 2020 totalled HK\$3,033 million, of which HK\$1,977 million was recorded as taxation in the consolidated statement of financial position, and the remaining HK\$1,056 million was included within the balance of other payables in note 17 to the consolidated financial statements.</p> <p>We identified the assessment of provisions for taxation, litigation and claims as a key audit matter because the estimates on which these provisions are based involve a significant degree of management judgement in interpreting the various relevant rules, regulations and practices and in considering precedents in the various jurisdictions and because determining the level of provisions may be subject to a degree of management bias.</p>	<p>Our audit procedures to assess the provisions for taxation, litigation and claims included the following:</p> <ul style="list-style-type: none"> engaging our internal tax specialists to assess the Group's provisions for potential exposure to each material tax dispute by discussing with management to understand the dispute and reviewing correspondence with the relevant tax authorities to understand the relevant associated risks; discussing the status and potential exposures in respect of significant litigation, claims and regulatory enquiries with the Group's internal legal counsel and obtaining letters regarding the progress of litigation and claims from the Group's external legal counsel, including their views on the likely outcome of each litigation or claim and the magnitude of potential exposure; challenging the assumptions and critical judgements made by management which impacted their estimations of the provisions required, considering judgements previously made by the taxation authorities in the relevant jurisdictions and any relevant opinions given by third party advisors and assessing whether there was an indication of management bias; performing a retrospective review of provisions for taxation, litigation and claims to evaluate whether the judgement and decisions made by management in estimating provisions in the prior year indicated possible management bias.

ASSESSING AIRCRAFT MAINTENANCE PROVISIONS

Refer to accounting policy 6 and notes 12 and 17 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31st December 2020, the Group held 68 aircraft under lease arrangements under which 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.</p> <p>Management estimates the maintenance costs and the costs associated with the restitution of life-limited parts at the end of each reporting period and makes relevant provisions over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft, cost of maintenance and the lifespan of the life-limited parts.</p> <p>Provisions for aircraft maintenance costs totalled HK\$5,718 million as at 31st December 2020 and are included within other long-term payables and trade and other payables in the consolidated statement of financial position.</p> <p>We identified assessing aircraft maintenance provisions as a key audit matter because of the inherent level of complex and subjective management judgements required in assessing the variable factors and assumptions in order to quantify the provision amounts.</p>	<p>Our audit procedures to assess aircraft maintenance provisions included the following:</p> <ul style="list-style-type: none"> assessing the design, implementation and operating effectiveness of management's key internal controls over accounting for maintenance provisions for aircraft held under leases; evaluating the provisioning model, methodology and key assumptions adopted by management in estimating the provisions and any changes therein by inspecting the terms of the leases on a sample basis and comparing assumptions to contract terms and the Group's maintenance cost experience; obtaining information about the utilisation pattern and expected useful lives of life-limited parts of the aircraft from personnel responsible for aircraft engineering, and considering the consistency of the provisions with the engineering department's assessment of the condition of aircraft; performing a retrospective review of aircraft maintenance provisions to evaluate whether the judgement and decisions made by management in estimating the provisions in the prior year indicated possible management bias.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Sze Kit Roy.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
10th March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31st December 2020

	Note	2020 HK\$M	2019 HK\$M	2020 US\$M	2019 US\$M
Revenue					
Passenger services		11,950	73,985	1,532	9,485
Cargo services		27,890	23,810	3,576	3,052
Other services and recoveries		7,094	9,178	909	1,177
Total revenue		46,934	106,973	6,017	13,714
Expenses					
Staff		(15,786)	(20,125)	(2,024)	(2,580)
Inflight service and passenger expenses		(1,102)	(5,306)	(141)	(680)
Landing, parking and route expenses		(6,868)	(17,758)	(880)	(2,277)
Fuel, including hedging losses		(11,379)	(29,812)	(1,459)	(3,822)
Aircraft maintenance		(5,772)	(9,858)	(740)	(1,264)
Aircraft depreciation and rentals		(11,879)	(12,022)	(1,523)	(1,541)
Other depreciation, amortisation and rentals		(2,720)	(2,991)	(349)	(384)
Commissions		(146)	(927)	(19)	(119)
Others		(2,987)	(4,847)	(383)	(621)
Operating expenses		(58,639)	(103,646)	(7,518)	(13,288)
Operating (loss)/profit before non-recurring items		(11,705)	3,327	(1,501)	426
Restructuring costs	32	(2,383)	–	(305)	–
Impairment and related charges	32	(4,056)	–	(520)	–
Gain on deemed partial disposal of an associate		–	114	–	15
Operating (loss)/profit	2	(18,144)	3,441	(2,326)	441
Finance charges		(3,044)	(3,276)	(390)	(420)
Finance income		149	337	19	43
Net finance charges	3	(2,895)	(2,939)	(371)	(377)
Share of (losses)/profits of associates		(1,282)	1,643	(164)	211
(Loss)/profit before taxation		(22,321)	2,145	(2,861)	275
Taxation	4	674	(454)	86	(58)
(Loss)/profit for the year		(21,647)	1,691	(2,775)	217
Attributable to					
Ordinary shareholders of Cathay Pacific		(21,876)	1,691	(2,804)	217
Preference shareholder of Cathay Pacific		228	–	29	–
Non-controlling interests		1	–	–	–
(Loss)/profit for the year		(21,647)	1,691	(2,775)	217
(Loss)/earnings per ordinary share (2019 restated)					
Basic and diluted	5	(424.3)¢	39.1¢	(54.4)¢	5.0¢
(Loss)/profit for the year		(21,647)	1,691	(2,775)	217
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		(1,041)	551	(134)	71
Share of other comprehensive income of associates		(203)	(186)	(26)	(24)
Exchange differences on translation of foreign operations		1,638	(472)	210	(61)
Items that may not be reclassified subsequently to profit or loss:					
Defined benefit plans		599	1,061	77	136
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		–	33	–	4
Other comprehensive income for the year, net of taxation	6	993	987	127	126
Total comprehensive income for the year		(20,654)	2,678	(2,648)	343
Total comprehensive income attributable to					
Ordinary shareholders of Cathay Pacific		(20,883)	2,678	(2,677)	343
Preference shareholder of Cathay Pacific		228	–	29	–
Non-controlling interests		1	–	–	–
		(20,654)	2,678	(2,648)	343

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 US\$1:HK\$7.8.

The notes on pages 69 to 122 and the principal accounting policies on pages 123 to 133 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31st December 2020

	Note	2020 HK\$M	2019 HK\$M	2020 US\$M	2019 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	7	131,925	140,114	16,914	17,963
Intangible assets	8	15,061	15,151	1,931	1,942
Investments in associates	9	26,489	27,055	3,396	3,469
Other long-term receivables and investments	10	2,905	3,823	372	490
Deferred tax assets	14	627	1,089	80	140
		177,007	187,232	22,693	24,004
Interest-bearing liabilities	11	(68,880)	(76,508)	(8,831)	(9,809)
Other long-term payables	12	(4,210)	(4,806)	(540)	(616)
Deferred tax liabilities	14	(11,499)	(13,564)	(1,474)	(1,739)
		(84,589)	(94,878)	(10,845)	(12,164)
Net non-current assets		92,418	92,354	11,848	11,840
Current assets and liabilities					
Stock		1,719	1,812	220	232
Trade and other receivables	15	6,469	10,608	829	1,360
Assets held for sale		38	–	5	–
Liquid funds	16	19,341	14,864	2,480	1,906
		27,567	27,284	3,534	3,498
Interest-bearing liabilities	11	(24,249)	(20,752)	(3,109)	(2,660)
Trade and other payables	17	(12,376)	(18,218)	(1,587)	(2,336)
Contract liabilities	18	(8,122)	(15,941)	(1,041)	(2,044)
Taxation		(1,977)	(1,951)	(253)	(250)
		(46,724)	(56,862)	(5,990)	(7,290)
Net current liabilities		(19,157)	(29,578)	(2,456)	(3,792)
Total assets less current liabilities		157,850	157,654	20,237	20,212
Net assets		73,261	62,776	9,392	8,048
CAPITAL AND RESERVES					
Share capital	19	48,322	17,106	6,195	2,193
Reserves	21	24,935	45,667	3,197	5,855
Funds attributable to the shareholders of Cathay Pacific		73,257	62,773	9,392	8,048
Non-controlling interests		4	3	–	–
Total equity		73,261	62,776	9,392	8,048

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 US\$1:HK\$7.8.

The notes on pages 69 to 122 and the principal accounting policies on pages 123 to 133 form part of these financial statements.

Patrick Healy
Director
Hong Kong, 10th March 2021

John Harrison
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31st December 2020

	Note	2020 HK\$M	2019 HK\$M	2020 US\$M	2019 US\$M
Operating activities					
Cash (used in)/generated from operations	22	(11,237)	18,458	(1,441)	2,366
Interest received		92	179	12	23
Interest paid		(2,223)	(3,010)	(285)	(386)
Tax paid		(923)	(285)	(118)	(36)
Net cash (outflow)/inflow from operating activities		(14,291)	15,342	(1,832)	1,967
Investing activities					
Purchase of subsidiaries		–	(1,697)	–	(218)
Net (increase)/decrease in liquid funds other than cash and cash equivalents		(7,150)	1,796	(917)	230
Proceeds from sales of property, plant and equipment		153	134	20	17
Net increase in other long-term receivables and investments		(2)	(60)	–	(8)
Payments for property, plant and equipment and intangible assets		(5,418)	(12,171)	(695)	(1,560)
Dividends received from associates		675	394	87	51
Loan to an associate		(16)	–	(2)	–
Net cash outflow from investing activities		(11,758)	(11,604)	(1,507)	(1,488)
Financing activities					
New financing	11	22,304	16,975	2,859	2,176
Initial cash benefit from lease arrangements	14	–	837	–	107
Loan and lease repayments	11	(30,134)	(18,785)	(3,863)	(2,408)
Proceeds from issue of rights shares	19	11,716	–	1,502	–
Proceeds from issue of preference shares	19	19,500	–	2,500	–
Payments of transaction costs on issue of rights shares and preference shares		(77)	–	(10)	–
Dividends paid – to ordinary shareholders of Cathay Pacific		–	(1,495)	–	(192)
– to non-controlling interests		–	(1)	–	–
Net cash inflow/(outflow) from financing activities		23,309	(2,469)	2,988	(317)
Net (decrease)/increase in cash and cash equivalents		(2,740)	1,269	(351)	162
Cash and cash equivalents at 1st January		8,881	7,653	1,138	981
Effect of exchange differences		25	(41)	4	(5)
Cash and cash equivalents at 31st December	24	6,166	8,881	791	1,138

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 US\$1:HK\$7.8.

The notes on pages 69 to 122 and the principal accounting policies on pages 123 to 133 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2020

	Attributable to the shareholders of Cathay Pacific								
	Share capital HK\$M	Retained profit HK\$M	Investment revaluation reserve (non-recycling) HK\$M	Cash flow hedge reserve HK\$M	Others HK\$M	Total HK\$M	Non-controlling interests HK\$M	Total equity HK\$M	
At 1st January 2020	17,106	45,867	(148)	634	(686)	62,773	3	62,776	
Loss for the year	–	(21,648)	–	–	–	(21,648)	1	(21,647)	
Other comprehensive income	–	599	–	(1,041)	1,435	993	–	993	
Total comprehensive income for the year	–	(21,049)	–	(1,041)	1,435	(20,655)	1	(20,654)	
Issue of rights shares	11,716	–	–	–	–	11,716	–	11,716	
Issue of preference shares	19,500	–	–	–	–	19,500	–	19,500	
Transaction costs on issue of rights shares and preference shares	–	(77)	–	–	–	(77)	–	(77)	
At 31st December 2020	48,322	24,741	(148)	(407)	749	73,257	4	73,261	
At 1st January 2019	17,106	46,956	(181)	83	(28)	63,936	3	63,939	
Impact on initial application of HKFRS 16	–	(2,346)	–	–	–	(2,346)	–	(2,346)	
At 1st January 2019, adjusted	17,106	44,610	(181)	83	(28)	61,590	3	61,593	
Profit for the year	–	1,691	–	–	–	1,691	–	1,691	
Other comprehensive income	–	1,061	33	551	(658)	987	–	987	
Total comprehensive income for the year	–	2,752	33	551	(658)	2,678	–	2,678	
2018 second interim dividend	–	(787)	–	–	–	(787)	–	(787)	
2019 first interim dividend	–	(708)	–	–	–	(708)	–	(708)	
At 31st December 2019	17,106	45,867	(148)	634	(686)	62,773	3	62,776	

The notes on pages 69 to 122 and the principal accounting policies on pages 123 to 133 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income

1. SEGMENT INFORMATION

(a) Segment results

	2020					
	Cathay Pacific and Cathay Dragon HK\$M	HK Express HK\$M	Air Hong Kong HK\$M	Airline services HK\$M	Associates HK\$M	Total HK\$M
Profit or loss						
Sales to external customers	42,432	861	2,866	775		46,934
Inter-segment sales	296	–	90	1,877		2,263
Segment revenue	42,728	861	2,956	2,652		49,197
Segment (loss)/profit, before restructuring costs, impairment and related charges	(10,357)	(1,661)	852	(539)	–	(11,705)
Restructuring costs	(2,383)	–	–	–	–	(2,383)
Impairment and related charges	(2,815)	(1)	–	(1,184)	(56)	(4,056)
Segment (loss)/profit	(15,555)	(1,662)	852	(1,723)	(56)	(18,144)
Net finance charges	(2,313)	(274)	–	(308)	–	(2,895)
	(17,868)	(1,936)	852	(2,031)	(56)	(21,039)
Share of losses of associates	–	–	–	–	(1,282)	(1,282)
(Loss)/profit before taxation	(17,868)	(1,936)	852	(2,031)	(1,338)	(22,321)
Taxation	475	213	(137)	(3)	126	674
(Loss)/profit for the year	(17,393)	(1,723)	715	(2,034)	(1,212)	(21,647)
Non-controlling interests	–	–	–	(1)	–	(1)
(Loss)/profit attributable to the shareholders of Cathay Pacific	(17,393)	(1,723)	715	(2,035)	(1,212)	(21,648)
Other segment information						
Depreciation and amortisation	12,756	901	6	758		14,421
Purchase of property, plant and equipment and intangible assets	5,004	329	1	84		5,418

NOTES TO THE FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income

1. SEGMENT INFORMATION (continued)

	2019					
	Cathay Pacific and Cathay Dragon HK\$M	HK Express HK\$M	Air Hong Kong HK\$M	Airline services HK\$M	Associates HK\$M	Total HK\$M
Profit or loss						
Sales to external customers	101,377	1,893	2,633	1,070		106,973
Inter-segment sales	229	–	5	3,565		3,799
Segment revenue	101,606	1,893	2,638	4,635		110,772
Segment profit/(loss)	2,951	(196)	797	(111)		3,441
Net finance charges	(2,446)	(112)	–	(381)		(2,939)
	505	(308)	797	(492)		502
Share of profits of associates	–	–	–	–	1,643	1,643
Profit/(loss) before taxation	505	(308)	797	(492)	1,643	2,145
Taxation	(264)	62	(130)	33	(155)	(454)
Profit/(loss) for the year	241	(246)	667	(459)	1,488	1,691
Non-controlling interests	–	–	–	–	–	–
Profit/(loss) attributable to the shareholders of Cathay Pacific	241	(246)	667	(459)	1,488	1,691
Other segment information						
Depreciation and amortisation	13,027	409	6	780		14,222
Purchase of property, plant and equipment and intangible assets	12,049	5	2	115		12,171

- (i) Cathay Pacific and Cathay Dragon (until 21st October 2020) provide full service international passenger and cargo air transportation under the Cathay Pacific and Cathay Dragon brands. Management considers that there is no suitable basis for allocating operating results between passenger and cargo operations. Accordingly these are not disclosed as separate business segments.
- (ii) HK Express is a low cost passenger carrier offering scheduled services within Asia.
- (iii) Air Hong Kong provides express cargo air transportation offering scheduled services within Asia.
- (iv) Airline services represents our supporting airline operations including catering, cargo terminal operations, ground handling services and commercial laundry operations.

The composition of reportable segments of the Group is determined according to the nature of the business, and is aligned with financial information provided regularly to the Group's executive management.

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

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 "Revenue from Contracts with Customers" to its sales contracts such that the Group does not disclose the amount of the transaction price allocated to the remaining performance obligations when the performance obligation is part of a contract that has an original expected duration of one year or less.

1. SEGMENT INFORMATION (continued)

(b) Geographical information

	2020 HK\$M	2019 HK\$M
Revenue by origin of sale:		
North Asia		
– Hong Kong and the Chinese mainland	29,567	54,198
– Japan, Korea and Taiwan	3,168	9,974
Americas	3,944	14,084
Europe	2,649	10,377
Southeast Asia	3,686	7,598
Southwest Pacific	1,531	5,586
South Asia, Middle East and Africa	2,389	5,156
	46,934	106,973

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, analysis of the Group's assets by geographical regions is not disclosed.

2. OPERATING (LOSS)/PROFIT

	2020 HK\$M	2019 HK\$M
Operating (loss)/profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– right-of-use assets	6,069	5,846
– owned	7,779	7,826
Amortisation of intangible assets	573	550
Impairment		
– property, plant and equipment	3,973	–
– intangible assets	39	–
– investment in an associate	56	–
Expenses relating to short-term leases and leases of low-value assets	25	181
COVID-19-related rent concessions received	(316)	–
Gain on disposal of property, plant and equipment, net	(34)	(175)
Loss on disposal of intangible assets	–	9
Cost of stock expensed	845	2,164
Exchange differences, net	(295)	(43)
Auditors' remuneration	16	16
Dividend income from unlisted equity investments	(49)	(51)

NOTES TO THE FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income

3. NET FINANCE CHARGES

	2020 HK\$M	2019 HK\$M
Net interest charges comprise:		
– lease liabilities stated at amortised cost	1,058	1,404
– bank loans and overdrafts		
– wholly repayable within five years	718	673
– not wholly repayable within five years	543	1,090
– other borrowings		
– wholly repayable within five years	125	110
– not wholly repayable within five years	255	–
	2,699	3,277
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	(63)	(170)
– bank deposits and others	(86)	(167)
	(149)	(337)
Fair value change:		
– gain on financial liabilities designated at fair value through profit or loss	(73)	(26)
– loss on financial derivatives	418	25
	345	(1)
	2,895	2,939

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

Included in fair value change in respect of financial derivatives is net loss from derivatives that are classified as fair value through profit or loss of HK\$210 million (2019: net loss of HK\$40 million).

4. TAXATION

	2020 HK\$M	2019 HK\$M
Current tax expenses		
– Hong Kong profits tax	137	137
– overseas tax	124	205
– under provisions for prior years	42	12
Deferred tax		
– origination and reversal of temporary differences (note 14)	(977)	100
	(674)	454

Hong Kong profits tax is calculated at 16.5% (2019: 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(c) to the financial statements).

4. TAXATION (continued)

A reconciliation between tax credit/(charge) and accounting (loss)/profit at applicable tax rates is as follows:

	2020 HK\$M	2019 HK\$M
(Loss)/profit before taxation	(22,321)	2,145
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2019: 16.5%)	3,683	(354)
Expenses not deductible for tax purposes	(435)	(148)
Income not subject to tax	136	44
Effect of changes in effective tax rate and jurisdictional differences	(445)	284
Tax under provisions arising from prior years	(42)	(12)
Tax losses not recognised	(1,286)	(268)
Reversal of tax losses recognised in prior years	(937)	–
Tax credit/(charge)	674	(454)

Upon restructuring of the Group, deferred tax assets on tax losses of HK\$1,590 million for Cathay Dragon were written off during the year, of which HK\$878 million was recognised in prior years.

Further information on deferred taxation is shown in note 14 to the financial statements.

5. (LOSS)/EARNINGS PER ORDINARY SHARE

	2020			2019		
	Loss ^(a) HK\$M	Weighted average number of ordinary shares	Per share amount HK cents	Profit ^(a) HK\$M	Weighted average number of ordinary shares (restated)	Per share amount HK cents (restated)
Basic and diluted (loss)/ earnings per ordinary share	(21,876)	5,156,000,217	(424.3)	1,691	4,324,951,577	39.1

- (a) The (loss)/profit amounts represent the (loss)/profit attributable to the ordinary shareholders of Cathay Pacific, which is the (loss)/profit for the year after non-controlling interests and dividends attributable to the holder of the cumulative preference shares classified as equity (see note 20(c) to the financial statements).
- (b) On 10th August 2020, the Company issued 2,503,355,631 new ordinary shares at HK\$4.68 each by way of rights issue to qualifying ordinary shareholders. As required by HKAS 33 "Earnings per Share", a retrospective adjustment of 391,107,005 shares representing the bonus element in the rights issue was applied to the calculation of the weighted average number of ordinary shares for the periods prior to the rights issue. Basic and diluted (loss)/earnings per ordinary share for the prior periods have been restated accordingly.
- (c) On 12th August 2020, the Company issued warrants which entitle the holder to subscribe for up to 416,666,666 ordinary shares. The Company's warrants as at 31st December 2020 have an anti-dilutive effect to the loss per ordinary share and there are no other potential dilutive ordinary shares in existence during the years ended 31st December 2020 and 2019, and hence diluted (loss)/earnings per ordinary share is the same as the basic (loss)/earnings per ordinary share.

NOTES TO THE
FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income

6. OTHER COMPREHENSIVE INCOME

	2020 HK\$M	2019 HK\$M
Cash flow hedges		
– (loss)/gain recognised during the year	(4,261)	1,455
– loss/(gain) transferred to profit or loss (note 21)	3,105	(831)
– deferred taxation (note 14)	115	(73)
Share of other comprehensive income of associates		
– recognised during the year	(203)	(186)
Exchange differences on translation of foreign operations		
– gain/(loss) recognised during the year	1,638	(556)
– reclassified to profit or loss upon deemed partial disposal	–	84
Defined benefit plans		
– remeasurement gain recognised during the year (note 13)	653	1,188
– deferred taxation (note 14)	(54)	(127)
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		
– gain recognised during the year	–	33
Other comprehensive income for the year	993	987

NOTES TO THE FINANCIAL STATEMENTS

Statement of Financial Position

7. PROPERTY, PLANT AND EQUIPMENT

	Aircraft and related equipment			Other equipment		Land and buildings			
	Owned HK\$M	Finance leased HK\$M	Right-of- use assets ^(a) HK\$M	Owned HK\$M	Right-of- use assets HK\$M	Owned HK\$M	Right-of- use assets HK\$M	Under construction HK\$M	Total HK\$M
Cost									
At 1st January 2020	132,364	–	61,228	5,616	217	15,333	7,566	20	222,344
Additions	4,499	–	3,822	115	44	88	159	2	8,729
Disposals	(3,662)	–	(246)	(193)	(6)	(15)	(110)	–	(4,232)
Reclassification to assets held for sale	–	–	–	(64)	–	(4)	–	–	(68)
Transfers	2,182	–	(2,182)	–	–	2	–	(2)	–
Other right-of-use asset adjustments	–	–	614	–	57	–	504	–	1,175
At 31st December 2020	135,383	–	63,236	5,474	312	15,404	8,119	20	227,948
At 1st January 2019	122,247	44,526	–	5,413	–	15,191	–	22	187,399
Adoption of HKFRS 16 – reclassification of finance leases ^(a)	–	(44,526)	44,526	–	–	–	–	–	–
Adoption of HKFRS 16 – reclassification of leasehold land rental prepayments ^(b)	–	–	–	–	–	–	2,059	–	2,059
Adoption of HKFRS 16 – recognition of operating leases ^(c)	–	–	12,143	–	271	–	4,936	–	17,350
At 1st January 2019, adjusted	122,247	–	56,669	5,413	271	15,191	6,995	22	206,808
Purchase of a subsidiary	98	–	5,172	6	–	16	31	–	5,323
Additions	11,263	–	1,118	276	24	146	443	–	13,270
Disposals	(2,938)	–	–	(79)	–	(22)	(94)	–	(3,133)
Transfers	1,694	–	(1,694)	–	–	2	–	(2)	–
Other right-of-use asset adjustments	–	–	(37)	–	(78)	–	191	–	76
At 31st December 2019	132,364	–	61,228	5,616	217	15,333	7,566	20	222,344
Accumulated depreciation and impairment									
At 1st January 2020	52,527	–	17,753	3,625	38	6,474	1,813	–	82,230
Charge for the year	6,747	–	4,921	294	50	738	1,098	–	13,848
Impairment	2,355	–	409	313	–	751	145	–	3,973
Disposals	(3,493)	–	(246)	(148)	(2)	(11)	(98)	–	(3,998)
Reclassification to assets held for sale	–	–	–	(26)	–	(4)	–	–	(30)
Transfers	1,521	–	(1,521)	–	–	–	–	–	–
At 31st December 2020	59,657	–	21,316	4,058	86	7,948	2,958	–	96,023
At 1st January 2019	47,770	13,405	–	3,359	–	5,741	–	–	70,275
Adoption of HKFRS 16 – reclassification of finance leases ^(a)	–	(13,405)	13,405	–	–	–	–	–	–
Adoption of HKFRS 16 – reclassification of leasehold land rental prepayments ^(b)	–	–	–	–	–	–	843	–	843
At 1st January 2019, adjusted	47,770	–	13,405	3,359	–	5,741	843	–	71,118
Purchase of a subsidiary	5	–	463	4	–	10	8	–	490
Charge for the year	6,748	–	4,827	333	38	745	981	–	13,672
Disposals	(2,938)	–	–	(71)	–	(22)	(19)	–	(3,050)
Transfers	942	–	(942)	–	–	–	–	–	–
At 31st December 2019	52,527	–	17,753	3,625	38	6,474	1,813	–	82,230
Net book value									
At 31st December 2020	75,726	–	41,920	1,416	226	7,456	5,161	20	131,925
At 31st December 2019	79,837	–	43,475	1,991	179	8,859	5,753	20	140,114

(a) Assets held under finance leases under HKAS 17 were reclassified as right-of-use assets upon adoption of HKFRS 16 on 1st January 2019.

(b) Leasehold land rental prepayments were reclassified as right-of-use assets upon adoption of HKFRS 16 on 1st January 2019.

(c) Assets held under operating leases under HKAS 17 were recognised as right-of-use assets upon adoption of HKFRS 16 on 1st January 2019.

**NOTES TO THE
FINANCIAL STATEMENTS**
Statement of Financial Position

7. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Right-of-use assets

The Group is the lessee in respect of a number of aircraft and related equipment, other equipment and land and buildings held under leases. Future lease payments are recognised as right-of-use assets and lease liabilities in the consolidated statement of financial position in accordance with accounting policies 6 and 9 respectively.

During the year, additions to right-of-use assets were HK\$4,025 million (2019: HK\$1,585 million), a significant proportion of which is related to the delivery of leased aircraft.

Details of cash outflows and significant non-cash transactions for leases, and the maturity analysis of lease liabilities are set out in notes 23 and 11 to the financial statements, respectively.

The Group has early adopted the Amendment to HKFRS 16 "COVID-19-Related Rent Concessions" and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the year. Further information is provided in note 32 to the financial statements.

(i) Aircraft and related equipment

The Group has obtained the right to use aircraft and related equipment through lease arrangements.

The Group held 41 aircraft at 31st December 2020 (2019: 42) under lease arrangements which transfer ownership of the underlying asset to the Group by the end of the lease term or which contain a purchase option that the Group is reasonably certain to exercise. The remaining lease terms ranged from 1 to 10 years.

The Group held 68 aircraft at 31st December 2020 (2019: 69) under lease arrangements which either do not transfer ownership of the underlying asset to the Group by the end of the lease term or which do not contain a purchase option that the Group is reasonably certain to exercise. The remaining lease terms ranged from 1 to 13 years.

Some of the lease payments are partially fixed and partially floating that are generally linked to market rates of interest. The amounts of fixed and floating lease payments are included in the measurement of lease liabilities. There are no other variable lease payments that do not depend on an index or a rate.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

	Lease liabilities recognised (discounted)		Potential future lease payments under extension options not included in lease liabilities (undiscounted)	
	2020 HK\$M	2019 HK\$M	2020 HK\$M	2019 HK\$M
Aircraft and related equipment	32,782	35,259	7,925	8,993

(ii) Other equipment

The Group leases other equipment under leases expiring from 1 to 8 years. Some leases include an option to renew the lease when all terms are renegotiated and none of the leases includes variable lease payments.

(iii) Ownership interests in leasehold land held for own use

The Group holds several leasehold land for its airline and related businesses, where its airline-related facilities are primarily located. The Group is the registered owner of these property interests, including the whole or part of an undivided share in the underlying land. Lump sum payments were made upfront to acquire these land interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities. The leases will expire within 27 years.

7. PROPERTY, PLANT AND EQUIPMENT (continued)

(iv) Properties leased for own use

The Group leases other properties under leases expiring from 1 to 13 years. Some leases include an option to renew the lease when all terms are renegotiated and some of the leases include insignificant amounts of variable lease payments that are based on revenue or tonnage handled.

- (b) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. At 31st December 2020, advance payments included in owned aircraft and related equipment amounted to HK\$2,930 million (2019: HK\$3,945 million). No depreciation is provided on these advance payments.
- (c) 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 11 to the financial statements.
- (d) During the year, the carrying amounts of certain property, plant and equipment were written down by HK\$3,973 million to their recoverable amounts as follows (the recoverable amounts were estimated using the higher of fair value less costs of disposal and value in use):
 - (i) As a result of reduced flying associated with the impacts of the pandemic, management has assessed as part of its base case for Cathay Pacific (see note 8 to the financial statements) that there are 34 owned and leased aircraft, under the Cathay Pacific and Cathay Dragon segment as disclosed in note 1 to the financial statements, that are unlikely to re-enter meaningful economic service again before their retirement or return to lessors by the end of 2021. Consequently an impairment charge of HK\$2,764 million was recognised during the year to write off these aircraft assets in full. Any delay of the base case passenger traffic recovery profile could result in further impairment charges in future periods. The carrying value at 31st December 2020 of aircraft which are expected to retire or be returned to lessors in the first half of 2022 is HK\$0.8 billion. At present, it is expected that such aircraft will re-enter meaningful economic service before their retirement or return to lessors.
 - (ii) An impairment charge of HK\$526 million (which comprises HK\$143 million of other equipment and HK\$383 million of land and buildings) was recognised to reduce the carrying values of Cathay Pacific Catering Services (H.K.) Limited ("CPCS")'s property, plant and equipment to its value in use. CPCS operates the principal flight kitchen in Hong Kong. The recoverable amount for this CGU at 31st December 2020 is HK\$847 million.
 - (iii) An impairment charge of HK\$658 million (which comprises HK\$170 million of other equipment and HK\$488 million of land and buildings) was recognised to reduce the carrying values of Vogue Laundry Service Limited ("VLS")'s property, plant and equipment to its value in use. VLS provides a comprehensive range of services in laundry and dry cleaning of commercial linen, uniforms and guest garments. The recoverable amount for this CGU at 31st December 2020 is HK\$983 million.
 - (iv) Both CPCS and VLS form part of the Airline services reportable segment disclosed in note 1 to the financial statements. Values in use were determined using cash flow projections to reflect decreased passenger demand and thus revenues of CPCS and VLS (see note 8 to the financial statements). The pre-tax discount rates used in the value in use assessments for CPCS and VLS were 9.0% and 9.0% respectively.
 - (v) Further, impairments on properties under leases totalling HK\$25 million have been recognised during the year reflecting a reduction in the expected usage of various rented buildings as a result of the pandemic.

Further details surrounding the impact of COVID-19 on the Group are disclosed in note 32 to the financial statements.

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8. INTANGIBLE ASSETS

	Goodwill HK\$M	Computer software HK\$M	Others HK\$M	Total HK\$M
Cost				
At 1st January 2020	11,654	7,376	39	19,069
Additions	–	522	–	522
At 31st December 2020	11,654	7,898	39	19,591
At 1st January 2019	7,666	6,828	39	14,533
Purchase of a subsidiary	3,988	33	–	4,021
Additions	–	528	–	528
Disposals	–	(13)	–	(13)
At 31st December 2019	11,654	7,376	39	19,069
Accumulated amortisation and impairment				
At 1st January 2020	–	3,898	20	3,918
Charge for the year	–	569	4	573
Impairment	39	–	–	39
At 31st December 2020	39	4,467	24	4,530
At 1st January 2019	–	3,342	17	3,359
Purchase of a subsidiary	–	13	–	13
Charge for the year	–	547	3	550
Disposals	–	(4)	–	(4)
At 31st December 2019	–	3,898	20	3,918
Net book value				
At 31st December 2020	11,615	3,431	15	15,061
At 31st December 2019	11,654	3,478	19	15,151

Goodwill is allocated to the Group's CGUs as follows:

	2020 HK\$M	2019 HK\$M
Cathay Pacific	7,884	7,884
HK Express	3,616	3,616
Others	115	154
	11,615	11,654

Goodwill attributable to Cathay Pacific relates primarily to the acquisition of Cathay Dragon, with a portion representing synergy benefits to the Cathay Pacific CGU resulting from the acquisition of HK Express. Despite the closure of Cathay Dragon in October 2020, the Group expects to preserve the value of its network (and therefore its goodwill) within the Cathay Pacific CGU through the continuation of the majority of its routes.

Goodwill attributable to HK Express relates to the acquisition of HK Express and arose from the synergies expected to be derived from resource optimisation, cost savings and improved services.

The recoverable amount of each of the Group's CGUs was based on the higher of its fair value less costs of disposal (FVLCD) and its value in use (VIU). Due to the increase in the level of estimation uncertainty and wider range of possible cash flow projections as a result of the COVID-19 pandemic, the VIU's of the Group's two principal operating CGUs (Cathay Pacific and HK Express) were estimated using a discounted cash flow (DCF) analysis applied to two scenarios, a base case and a downside case, taking into consideration different future events and/or scenarios instead of a single cash flow scenario. While many scenarios may exist, management ultimately believes that the two scenarios detailed below are representative of possible outcomes.

8. INTANGIBLE ASSETS (continued)

The calculations use cash flow projections that are based on business plans prepared by management and approved by the Board of Directors. The business plans reflect the most recent developments as at the reporting date. Management's expectations reflect performance to date and are based on its experience in times of recession and consistent with the assumptions that it considers a market participant would make.

For the Cathay Pacific CGU the base case assumes, in line with IATA's economic outlook, that a recovery in passenger traffic commences in the second half of 2021 but does not return to pre-crisis levels until 2024. Revenue efficiency during the recovery period is assumed to remain weaker than historical actuals as demand is stimulated. A ten-year forecast is considered appropriate for the airline operations to take into account this recovery period and thereafter a phased opening of slot availability associated with the new Three Runway System at Hong Kong International Airport. Consequently during the period 2025-2030 it is assumed that growth will be slightly elevated with revenue efficiency marginally weaker than historical averages. The downside scenario reflects an outcome where global economic conditions recover but are subdued with lower demand across the network, and thus capacity is reduced to preserve revenue efficiency. Cash flows beyond the ten-year period are extrapolated with an estimated general annual growth rate of 2.25% (2019: 2.25%) which does not exceed the long-term average growth rate for the industry (IATA's most recent 20 year global forecast is 3.7%). Cash outflows include capital and maintenance expenditure for the purchase of aircraft and other property, plant and equipment. The discount rate used of 7.4% (2019: 7.2%) is pre-tax and reflects the specific risks related to the relevant segment. Both the base case and downside case result in headroom over the carrying values of the CGU as at 31st December 2020 and consequently no impairment has been made. Compared with the 2019 impairment test, the negative impacts of the pandemic recovery period have been partially offset by the long term benefits of our restructuring in late 2020 (see note 32(a)(iii) to the financial statements and the anticipated migration of marginal or loss making ex-Cathay Dragon routes to the better suited low cost carrier model of HK Express.

For the HK Express CGU, the base case scenario reflects a faster recovery than Cathay Pacific due to an expected earlier resumption in demand for short haul and regional leisure travel, together with steady growth in the low cost carrier demand model, particularly with the opening of the Three Runway System. Due to the pursuit of growth, the downside scenario reflects a drop in revenue efficiency, rather than capacity. Like Cathay Pacific, a ten-year forecast is considered appropriate. Similarly cash flows beyond the ten-year period are extrapolated with an estimated general annual growth rate of 2.25% (2019: 2.25%). The discount rate used of 11.1% (2019: 7.5%) is pre-tax and reflects the specific risks related to the relevant segment. Both the base case and downside case result in headroom over the carrying values of the CGU as at 31st December 2020 and consequently no impairment has been made. Compared with the 2019 year end impairment test, the negative impacts of the pandemic recovery period have been offset by a full operational reassessment of the low cost carrier and the anticipated transfer and optimisation of ex-Cathay Dragon routes under the brand.

For both Cathay Pacific and HK Express CGUs the terminal year in the impairment test has the most material impact on the determination of the recoverable amount and thus the surplus over carrying value. As such the pandemic recovery period, while impacting the measurement, does not materially impact the surplus over carrying value identified. DCF modelling for 2021 sits within the range of IATA's latest pessimistic to optimistic 2021 traffic estimates. A delay (or acceleration) in recovery would extend (or reduce) our monthly HK\$1.0-1.5 billion cash burn, assuming no further mitigating actions are taken.

Impairment testing of our Airline service CGUs adopts, to the extent relevant, consistent recovery assumptions as the Cathay Pacific CGU. Impairments of goodwill (included within "Others") attributable to CPCS and VLS of HK\$39 million were booked to reduce the carrying values of assets to their estimated recoverable amounts. This also impacted the carrying value of their property, plant and equipment (see note 7(d) to the financial statements).

Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amounts of the CGUs including related goodwill to exceed the recoverable amounts of the respective CGUs.

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9. INVESTMENTS IN ASSOCIATES

	2020 HK\$M	2019 HK\$M
Share of net assets		
– listed in Hong Kong	18,410	20,090
– unlisted	4,342	3,404
Goodwill	3,483	3,266
	26,235	26,760
Less: impairment loss	(56)	–
	26,179	26,760
Loans due from associates	310	295
	26,489	27,055

At 31st December 2020, the market value of the shares in an associate, Air China, listed in Hong Kong is HK\$16,066 million (2019: HK\$20,833 million).

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

	2020 HK\$M	2019 HK\$M
Gross amounts of the associate's		
– current assets	28,931	27,452
– non-current assets	314,595	294,621
– current liabilities	(103,672)	(84,402)
– non-current liabilities	(137,193)	(124,361)
Revenue	101,750	157,601
(Loss)/profit from continuing operations	(15,564)	8,832
Other comprehensive income	(1,637)	(232)
Total comprehensive income	(17,201)	8,600
Dividend received from the associate	128	309
Reconciled to the Group's interests in the associate		
– gross amounts of net assets of the associate	102,661	113,310
– Group's share of net assets of the associate at effective interest (2020: 18.13%; 2019: 18.13%)	18,612	20,543
– effect of cross shareholding and others	(202)	(453)
– goodwill	3,483	3,266
	21,893	23,356

9. INVESTMENTS IN ASSOCIATES (continued)

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 the Chinese mainland.

Cathay Pacific had a 18.13% interest at 31st December 2020 (2019: 18.13%) and had significant influence through its representation on the Board of Directors of Air China and therefore equity accounted for its share of Air China's results.

The Group's 2020 results include Air China's results for the 12 months ended 30th September 2020 and any significant events or transactions for the period from 1st October 2020 to 31st December 2020. Air China's most recently available accounts were drawn up to 30th September 2020 (2019: 30th September 2019).

Due to the H-share market price for Air China having been below the value per share of the Group's carrying investment for a sustained period of more than six months, an impairment test was performed as at 31st December 2020 and no impairment loss was considered necessary as the recoverable amount exceeds the carrying value.

Aggregate information of associates that are not individually material is summarised as below:

	2020 HK\$M	2019 HK\$M
Aggregate carrying amount of individually immaterial associates	4,596	3,699
Aggregate amounts of the Group's share of those associates		
– profit from continuing operations	1,217	235
– other comprehensive income	268	(54)
– total comprehensive income	1,485	181

Principal associates are listed on page 122.

10. OTHER LONG-TERM RECEIVABLES AND INVESTMENTS

	2020 HK\$M	2019 HK\$M
Unlisted equity investments		
– designated at fair value through other comprehensive income (non-recycling)	56	56
– measured at fair value through profit or loss	759	830
Other long-term receivables measured at amortised cost	852	888
Derivative financial assets – long-term portion	243	1,579
Retirement benefit assets (note 13)	995	470
	2,905	3,823

At 31st December 2019, total derivative financial assets of the Group which did not qualify for hedge accounting amounted to HK\$1,415 million, presented under long-term receivables. The full amount was settled during 2020.

At 31st December 2020, there were insignificant derivative financial assets of the Group which did not qualify for hedge accounting.

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11. INTEREST-BEARING LIABILITIES

	Note	2020		2019	
		Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Loans and other borrowings	(a)	17,513	37,982	13,634	43,134
Lease liabilities	(b)	6,736	30,898	7,118	33,374
		24,249	68,880	20,752	76,508

The Group's net debt/equity ratio and adjusted net debt/equity ratio at the end of the current and previous reporting periods are summarised below:

	2020 HK\$M	2019 HK\$M
Non-current liabilities:		
Loans and other borrowings	37,982	43,134
Lease liabilities	30,898	33,374
	68,880	76,508
Current liabilities:		
Loans and other borrowings	17,513	13,634
Lease liabilities	6,736	7,118
	24,249	20,752
Total borrowings	93,129	97,260
Liquid funds	(19,341)	(14,864)
Net borrowings	73,788	82,396
Funds attributable to the shareholders of Cathay Pacific	73,257	62,773
Net debt/equity ratio	1.01	1.31

To allow for comparability of gearing ratios against group borrowing covenants, the Group has chosen to present a subset of net borrowings and the net debt/equity ratio which exclude leases without asset transfer components. Only lease liabilities which transfer ownership of the underlying asset to the Group by the end of the lease term or contain a purchase option that the Group is reasonably certain to exercise are included.

	2020 HK\$M	2019 HK\$M
Net borrowings	73,788	82,396
Less: lease liabilities without asset transfer components	(19,090)	(19,967)
Adjusted net borrowings, excluding leases without asset transfer components	54,698	62,429
Adjusted net debt/equity ratio, excluding leases without asset transfer components	0.75	0.99

11. INTEREST-BEARING LIABILITIES (continued)

(a) Loans and other borrowings

	2020 HK\$M	2019 HK\$M
Bank loans		
– secured	31,740	35,332
– unsecured	14,889	18,247
Other borrowings		
– secured	5,318	–
– unsecured	3,548	3,189
	55,495	56,768
Amount due within one year included in current liabilities	(17,513)	(13,634)
	37,982	43,134
Repayable as follows:		
Bank loans		
– within one year	16,724	12,557
– after one year but within two years	8,763	10,226
– after two years but within five years	13,010	19,832
– after five years	8,132	10,964
	46,629	53,579
Other borrowings		
– within one year	789	1,077
– after one year but within two years	2,246	301
– after two years but within five years	2,685	1,811
– after five years	3,146	–
	8,866	3,189
Amount due within one year included in current liabilities	(17,513)	(13,634)
	37,982	43,134

At 31st December 2020, aircraft and related equipment of HK\$57,612 million (2019: HK\$54,453 million) are pledged as security for the secured loans and other borrowings.

Loans and other borrowings are repayable up to 2035.

Loans and other borrowings of the Group not wholly repayable within five years amounted to HK\$29,295 million (2019: HK\$29,465 million).

At 31st December 2020, the Group had loans totalling HK\$38,618 million (2019: HK\$42,657 million) which were defeased by funds and other investments. Accordingly, these loans and the related funds, as well as related expenses and income, have been defeased in the financial statements.

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11. INTEREST-BEARING LIABILITIES (continued)

(b) Lease liabilities

The Group has commitments under lease agreements in respect of aircraft and related equipment, other equipment and buildings. Lease liabilities are repayable on various dates up to 2033. The reconciliation of future lease payments and their carrying values at the end of the current and previous reporting periods is as follows:

	2020 HK\$M	2019 HK\$M
Future payments	41,213	45,104
Interest charges relating to future periods	(3,579)	(4,612)
Present value of future payments	37,634	40,492
Amount due within one year included in current liabilities	(6,736)	(7,118)
	30,898	33,374

The present value of future payments is repayable as follows:

	2020 HK\$M	2019 HK\$M
Within one year	6,736	7,118
After one year but within two years	6,280	6,587
After two years but within five years	13,232	16,848
After five years	11,386	9,939
	37,634	40,492

The undiscounted future payments are repayable as follows:

	2020 HK\$M	2019 HK\$M
Within one year	7,519	8,233
After one year but within two years	6,942	7,518
After two years but within five years	14,445	18,546
After five years	12,307	10,807
	41,213	45,104

At 31st December 2019, the Group had financial liabilities designated at fair value through profit or loss of HK\$1,415 million, presented under lease liabilities. The full amount was settled during 2020.

11. INTEREST-BEARING LIABILITIES (continued)

(c) Reconciliation of interest-bearing liabilities

	Loans and other borrowings HK\$M	Lease liabilities HK\$M	Total HK\$M
At 1st January 2020	56,768	40,492	97,260
Changes from financing cash flows			
– new financing	21,591	713	22,304
– repayments	(23,123)	(7,011)	(30,134)
Other changes			
– exchange gain	(218)	(90)	(308)
– changes resulting from new leases	–	3,828	3,828
– changes resulting from lease modification	–	1,175	1,175
– changes resulting from lease termination	–	(16)	(16)
– COVID-19-related rent concessions received	–	(316)	(316)
– net settlement with lease embedded derivative instruments	–	(1,342)	(1,342)
– others	477	201	678
At 31st December 2020	55,495	37,634	93,129
At 1st January 2019	50,686	23,191	73,877
Adoption of HKFRS 16 – recognition of operating leases	–	18,603	18,603
At 1st January 2019, adjusted	50,686	41,794	92,480
Purchase of subsidiaries	410	4,668	5,078
Changes from financing cash flows			
– new financing	16,729	246	16,975
– repayments	(11,070)	(7,715)	(18,785)
Other changes			
– exchange gain	(228)	(153)	(381)
– changes resulting from new leases	–	1,605	1,605
– changes resulting from lease modification	–	76	76
– changes resulting from lease termination	–	(75)	(75)
– changes in fair values	–	(24)	(24)
– others	241	70	311
At 31st December 2019	56,768	40,492	97,260

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12. OTHER LONG-TERM PAYABLES

	2020 HK\$M	2019 HK\$M
Deferred liabilities	3,711	4,412
Derivative financial liabilities – long-term portion	499	394
	4,210	4,806

The Group had a maintenance provision of HK\$5,718 million (2019: HK\$5,031 million) for returning the aircraft to lessors to certain maintenance conditions. The movements during the year are as follows:

	2020 HK\$M	2019 HK\$M
At 1st January	5,031	3,666
Purchase of a subsidiary	–	909
Additional provision made	902	740
Provision utilised	(215)	(284)
At 31st December	5,718	5,031
Amount expected to be utilised within one year included in trade and other payables	(2,397)	(619)
Included in deferred liabilities above	3,321	4,412

At 31st December 2020, total derivative financial liabilities of the Group which did not qualify for hedge accounting amounted to HK\$423 million (2019: nil). The balance is included in above, except for HK\$340 million (2019: nil) which was included in trade and other payables.

13. 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 Benefits Scheme ("SGRBS") in Hong Kong, in which the Company, Cathay Pacific Catering Services (H.K.) Limited ("CPCS") and Vogue Laundry Service Limited ("VLS") are participating employers, and the Cathay Pacific Airways Group Retirement Benefits Scheme ("CPAGRBS") in which Hong Kong Airport Services Limited ("HAS") is a participating employer, provide 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, VLS and HAS meet the full cost of all benefits due by SGRBS or CPAGRBS 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.

13. RETIREMENT BENEFITS (continued)

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 value of plan 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.

The disclosures are based on actuarial valuations prepared by an independent firm of actuaries, Mercer (Hong Kong) Limited ("Mercer"), every three years in accordance with Hong Kong's Occupational Retirement Schemes Ordinance. The disclosures and valuations are updated annually in the intervening years by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes. The most recent valuations prepared by Mercer for all schemes (except for the portion of the Company under SGRBS) were for the period ended 31st December 2018.

Changes were effected on a considerable portion of SGRBS plan members in October 2020; conditions of service were revised for flight staff and redundancies were announced. An independent actuarial valuation of the SGRBS was prepared by Mercer for the period ended 31st December 2020. No other schemes were impacted by the restructure and these were updated by Cannon Trustees Limited for the period ended 31st December 2020.

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

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

The Group's obligations are 119.9% (2019: 106.8%) covered by the plan assets held by the trustees at 31st December 2020.

	2020 HK\$M	2019 HK\$M
Net expenses recognised in the profit or loss:		
Current service cost	228	264
Net interest (income)/expense	(26)	5
Gain on settlements	(63)	–
Total included in staff costs	139	269
Actual return on plan assets	542	814
	2020 HK\$M	2019 HK\$M
Net assets recognised in the statement of financial position:		
Present value of funded obligations	4,991	6,890
Fair value of plan assets	(5,986)	(7,360)
Retirement benefit assets (note 10)	(995)	(470)

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13. RETIREMENT BENEFITS (continued)

	2020 HK\$M	2019 HK\$M
Movements in present value of funded obligations comprise:		
At 1st January	6,890	7,547
Remeasurements		
– actuarial losses arising from changes in financial assumptions	323	167
– experience gains	(635)	(765)
Movements for the year		
– current service cost	228	264
– interest expense	175	229
– gain on settlements	(63)	–
– employee contributions	1	1
– benefits paid	(887)	(627)
– settlements paid	(935)	–
– transfer	(106)	74
At 31st December	4,991	6,890

The weighted average duration of the defined benefit obligations is six years (2019: six years).

	2020 HK\$M	2019 HK\$M
Movements in fair value of plan assets comprise:		
At 1st January	7,360	7,074
Movements for the year		
– return on plan assets excluding interest income	341	590
– interest income	201	224
– employee contributions	1	1
– employer contributions	11	24
– benefits paid	(887)	(627)
– settlements paid	(935)	–
– transfer	(106)	74
At 31st December	5,986	7,360

In connection with restructuring of the Group in 2020, a curtailment gain of HK\$63 million was incurred and settlements paid to impacted plan members.

There were no plan amendments during the year.

13. RETIREMENT BENEFITS (continued)

	2020 HK\$M	%	2019 HK\$M	%
Fair value of plan assets comprises:				
Equities				
– Asia Pacific	240	4	527	7
– Europe	306	5	508	7
– Americas	483	8	811	11
– Emerging markets	935	16	1,361	18
Bonds				
– Global	954	16	1,535	21
– Emerging markets	128	2	138	2
Absolute return funds	1,592	27	1,559	21
Cash	1,348	22	921	13
	5,986	100	7,360	100

At 31st December 2020, the prices of 95% of equities and 13% of bonds were quoted on active markets (31st December 2019: 96% and 28% respectively). The remainder of the prices were not quoted on active markets.

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

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

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

The contributions are calculated based upon funding recommendations arising from actuarial valuations. The Group expects to make contributions of HK\$12 million to the schemes in 2021.

	2020		2019	
	SGRBS	CPALRS	SGRBS	CPALRS
The significant actuarial assumptions are:				
Discount rate	1.64%	1.64%	2.93%	2.93%
Expected rate of future salary increases	3.00%	3.04%	3.00%	3.04%

The sensitivity of the defined benefit obligations to changes in the significant actuarial assumptions are set out below. This shows how the defined benefit obligations at 31st December 2020 would have (increased)/decreased as a result of 0.5% change in the actuarial assumptions:

	Increase by 0.5%		Decrease by 0.5%	
	2020 HK\$M	2019 HK\$M	2020 HK\$M	2019 HK\$M
Discount rate	129	203	(135)	(211)
Expected rate of future salary increases	(131)	(210)	127	205

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 changes in the significant actuarial assumptions, the same method has been applied as when calculating the retirement benefit liabilities recognised in the statement of financial position.

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13. RETIREMENT BENEFITS (continued)

(b) Defined contribution retirement schemes

A defined contribution scheme is a retirement plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions.

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

Under the terms of these schemes, other than the Company's contributions, staff may elect to contribute from 0% to 10% of their monthly salaries. During the year, the benefits forfeited in accordance with the schemes' rules amounted to HK\$50 million (2019: HK\$162 million) which have been applied towards the contributions payable by the Company.

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

Contributions to defined contribution retirement schemes charged to profit or loss were HK\$950 million (2019: HK\$1,062 million).

14. DEFERRED TAXATION

	2020 HK\$M	2019 HK\$M
Deferred tax assets:		
– provisions	(74)	(80)
– tax losses	(3,952)	(3,405)
– cash flow hedges	(44)	–
– right-of-use assets	(186)	(144)
Deferred tax liabilities:		
– accelerated tax depreciation	4,472	4,667
– investments in associates	928	1,121
– cash flow hedges	–	70
– retirement benefits	94	47
Provision in respect of certain lease arrangements	9,634	10,199
	10,872	12,475

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

	2020 HK\$M	2019 HK\$M
Net deferred tax asset recognised in the statement of financial position	(627)	(1,089)
Net deferred tax liability recognised in the statement of financial position	11,499	13,564
	10,872	12,475

14. DEFERRED TAXATION (continued)

	2020 HK\$M	2019 HK\$M
Movements in deferred taxation comprise:		
At 1st January	12,475	12,133
Movements for the year		
– purchase of a subsidiary	–	(231)
– (credited)/charged to profit or loss		
– deferred tax (credit)/charge (note 4)	(977)	100
– operating expenses	95	91
– (credited)/charged to other comprehensive income		
– transferred to cash flow hedge reserve (note 6)	(115)	73
– transferred to retained profit (note 6)	54	127
– initial cash benefit from lease arrangements	–	837
Current portion of provision in respect of certain lease arrangements included in current liabilities – taxation	(660)	(655)
At 31st December	10,872	12,475

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\$29,698 million (2019: HK\$15,882 million) to carry forward against future taxable profits. These amounts are analysed as follows:

	2020 HK\$M	2019 HK\$M
No expiry date	19,592	5,793
Expiring within 2021 to 2037	10,106	10,089
	29,698	15,882

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2021 to 2030 (2019: 2020 to 2030) as follows:

	2020 HK\$M	2019 HK\$M
After one year but within five years	5,578	5,027
After five years but within 10 years	4,056	4,508
After 10 years	–	664
	9,634	10,199

15. TRADE AND OTHER RECEIVABLES

	2020 HK\$M	2019 HK\$M
Trade debtors, net of loss allowances	3,381	5,559
Derivative financial assets – current portion	90	431
Other receivables and prepayments	2,994	4,567
Due from associates and other related companies	4	51
	6,469	10,608

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15. TRADE AND OTHER RECEIVABLES (continued)

	2020 HK\$M	2019 HK\$M
Analysis of trade debtors (net of loss allowances) by invoice date:		
Within one month	2,608	4,374
One to three months	505	713
More than three months	268	472
	3,381	5,559
	2020 HK\$M	2019 HK\$M
Analysis of trade debtors (net of loss allowances) by age:		
Current	2,916	4,984
Within three months overdue	221	430
More than three months overdue	244	145
	3,381	5,559

The movements in the expected credit loss allowance in respect of trade debtors during the year are as follows:

	2020 HK\$M	2019 HK\$M
At 1st January	81	83
Amounts written off	(3)	(2)
At 31st December	78	81

16. LIQUID FUNDS

	2020 HK\$M	2019 HK\$M
Cash and cash equivalents		
Short-term deposits and bank balances (note 24)	6,166	8,881
Other liquid funds		
Short-term deposits maturing beyond three months when placed	195	719
Funds with investment managers		
– debt securities listed outside Hong Kong	12,648	5,079
– bank deposits	188	43
Other liquid investments		
– debt securities listed outside Hong Kong	6	5
– bank deposits	138	137
Liquid funds	19,341	14,864

Included in other liquid investments are bank deposits of HK\$138 million (2019: HK\$137 million) and debt securities of HK\$6 million (2019: HK\$5 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.

16. LIQUID FUNDS (continued)

Available unrestricted funds to the Group are as follows:

	2020 HK\$M	2019 HK\$M
Liquid funds	19,341	14,864
Less: amounts pledged as part of long-term financing		
– debt securities listed outside Hong Kong	(6)	(5)
– bank deposits	(138)	(137)
Committed undrawn facilities	9,396	5,289
Available unrestricted liquidity to the Group	28,593	20,011

Committed undrawn facilities may be drawn at any time in either Hong Kong dollar or United States dollar.

17. TRADE AND OTHER PAYABLES

	2020 HK\$M	2019 HK\$M
Trade creditors	3,284	8,448
Derivative financial liabilities – current portion	1,311	523
Other payables	7,278	8,968
Due to associates	218	125
Due to other related companies	285	154
	12,376	18,218

	2020 HK\$M	2019 HK\$M
Analysis of trade creditors by invoice date:		
Within one month	2,570	8,018
One to three months	262	403
More than three months	452	27
	3,284	8,448

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

Included in other payables above, the Group had a provision of HK\$1,056 million (2019: HK\$794 million) for possible or actual taxation (other than income tax), litigation and claims. The movements during the year are as follows:

	2020 HK\$M	2019 HK\$M
At 1st January	794	780
Additional provision made	284	152
Provision utilised	(22)	(138)
At 31st December	1,056	794

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18. CONTRACT LIABILITIES

The Group had the following contract liabilities recognised in the consolidated statement of financial position:

		2020 HK\$M	2019 HK\$M
Passenger revenue	(a)	2,480	8,954
Passenger fuel and insurance surcharge	(a)	169	1,805
Loyalty programme	(b)	5,473	5,182
		8,122	15,941

The following table summarises the Group's revenue recognised during the year that was included in the contract liabilities at the beginning of the year:

		2020 HK\$M	2019 HK\$M
Passenger revenue	(a)	4,897	8,530
Passenger fuel and insurance surcharge	(a)	726	1,682
Loyalty programme	(b)	1,119	2,157

- (a) The Group typically receives ticket fares from passengers in advance of carriage. The value of unflown passenger sales is recognised as a contract liability until the transportation service is provided.
- (b) The value attributable to the award of programme miles as part of initial sales transaction is deferred until such time as the members redeem their programme miles.

19. SHARE CAPITAL

	2020		2019	
	Number of shares	HK\$M	Number of shares	HK\$M
Issued and fully paid				
Ordinary shares				
At 1st January	3,933,844,572	17,106	3,933,844,572	17,106
Shares issued on 10th August 2020 pursuant to rights issue	2,503,355,631	11,716	–	–
At 31st December	6,437,200,203	28,822	3,933,844,572	17,106
Preference shares				
At 1st January	–	–	–	–
Shares issued on 12th August 2020	195,000,000	19,500	–	–
At 31st December	195,000,000	19,500	–	–
		48,322		17,106

On 9th June 2020, the Company announced a recapitalisation proposal which involved, among other things:

- (a) the preference shares and warrants issue, being the issuance by the Company to Aviation 2020 Limited, a limited company wholly owned by the Financial Secretary Incorporated, of (a) 195,000,000 preference shares at the subscription price of HK\$100 per preference share and (b) 416,666,666 warrants which will entitle Aviation 2020 Limited to subscribe for up to 416,666,666 fully paid ordinary shares at the warrant exercise price of HK\$4.68 per share (subject to adjustment); and

19. SHARE CAPITAL (continued)

- (b) the rights issue, being the issuance of 2,503,355,631 rights shares on the basis of seven rights shares for every 11 existing ordinary shares held by shareholders on 21st July 2020 at the subscription price of HK\$4.68 per share.

The net proceeds of the rights issue and preference shares and warrants issue were used for general corporate purposes.

The preference shares and warrants issue were completed on 12th August 2020 (the "Issue Date"). The expiry date of the warrant is five years from the warrants issue date.

The Preference Shares are not redeemable at the option of Aviation 2020 Limited. The Company may redeem all or some of the Preference Shares, in an aggregate amount equal to the issue price of the preference share HK\$100 each plus any unpaid dividends (including any Arrears of Dividend or any Additional Dividend Amount). The holder of the preference shares is not entitled to convene, attend or vote at any general meeting, except where the business of a general meeting is the consideration of resolutions for amendments to the articles that directly and adversely modify or abrogate any of the special rights and privileges attached to the preference shares.

The preference shares will accrue dividends at the rate of:

- (a) 3% per annum from and including the Issue Date to but excluding the date falling three years from the Issue Date (the "First Step-up Date");
- (b) 5% per annum from and including the First Step-up Date to but excluding the date falling four years from the Issue Date (the "Second Step-up Date");
- (c) 7% per annum from and including the Second Step-up Date to but excluding the date falling five years from the Issue Date (the "Third Step-up Date"); and
- (d) 9% per annum from and including the Third Step-up Date

The preference shares and warrants upon exercise are recorded as additional share capital.

For further details of the preference shares and warrants issue, please refer to the Company's announcement dated 9th June 2020, the circular to shareholders dated 19th June 2020 and the announcement dated 12th August 2020.

Following approval by shareholders of the Company at the 2020 EGM, the Company issued 2,503,355,631 new ordinary shares at HK\$4.68 each on 10th August 2020, and 195,000,000 preference shares at HK\$100 each and 416,666,666 warrants on 12th August 2020.

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares and no exercise of warrants during the year. At 31st December 2020, 6,437,200,203 ordinary shares and 195,000,000 preference shares were in issue (31st December 2019: 3,933,844,572 ordinary shares).

20. DIVIDENDS

- (a) Dividends payable to ordinary shareholders attributable to the year

	2020 HK\$M	2019 HK\$M
No first interim dividend declared and paid for the year (2019: HK\$0.18 per ordinary share)	–	708
No second interim dividend proposed after the end of the reporting period (2019: nil)	–	–
	–	708

- (b) Dividends payable to ordinary shareholders attributable to the previous financial year, approved and paid during the year

	2020 HK\$M	2019 HK\$M
No second interim dividend in respect of the previous financial year, approved and paid during the year (2019: HK\$0.20 per ordinary share)	–	787

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20. DIVIDENDS (continued)

(c) Dividends on cumulative preference shares issued by the Company

Dividends on cumulative preference shares are paid semi-annually in arrears at the current rate of 3% per annum and can be deferred in whole or in part at the Company's discretion. The dividends payable on 16th February 2021 have been deferred. The amount deferred of HK\$292.5 million was in respect of dividends for the six month period from the Issue Date 12th August 2020. The amount attributable to the preference shareholder for the period ended 31st December 2020 was HK\$228 million (as disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income). Dividends on cumulative preference shares are not accrued until declared and are classified as distributions from equity.

21. RESERVES

	2020 HK\$M	2019 HK\$M
Retained profit	24,741	45,867
Investment revaluation reserve (non-recycling)	(148)	(148)
Cash flow hedge reserve	(407)	634
Others	749	(686)
	24,935	45,667

Investment revaluation reserve (non-recycling) of the Group comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income that are held at the end of the reporting period.

Cash flow hedge reserve of the Group relates to the effective portion of the cumulative net change in the fair values of hedging instruments. Refer to note 29 to the financial statements for details of the Group's hedging instruments.

Other reserves of the Group comprise exchange gains arising from revaluation of foreign investments which amounted to HK\$1,211 million (2019: exchange losses of HK\$427 million) and share of associates' other negative reserves of HK\$462 million (2019: negative reserves of HK\$259 million).

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

	2020 HK\$M	2019 HK\$M
Revenue	239	916
Fuel	(3,030)	(100)
Net finance charges	(314)	15
Net (loss)/gain transferred to profit or loss (note 6)	(3,105)	831

The cash flow hedge reserve of the Group is expected to be charged/(credited) to profit or loss 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
2021	617
2022	(299)
2023	(68)
2024	23
2025	36
Beyond 2025	98
	407

21. RESERVES (continued)

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

	Retained profit HK\$M	Investment revaluation reserve (non-recycling) HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
Company				
At 1st January 2020	36,548	(109)	646	37,085
Loss for the year	(21,105)	–	–	(21,105)
Other comprehensive income	603	–	(1,040)	(437)
Total comprehensive income for the year	(20,502)	–	(1,040)	(21,542)
Transaction costs on issue of rights shares and preference shares	(77)	–	–	(77)
At 31st December 2020	15,969	(109)	(394)	15,466
At 1st January 2019	37,147	(109)	92	37,130
Impact on initial application of HKFRS 16	(950)	–	–	(950)
At 1st January 2019, adjusted	36,197	(109)	92	36,180
Profit for the year	879	–	–	879
Other comprehensive income	967	–	554	1,521
Total comprehensive income for the year	1,846	–	554	2,400
2018 second interim dividend	(787)	–	–	(787)
2019 first interim dividend	(708)	–	–	(708)
At 31st December 2019	36,548	(109)	646	37,085

Distributable reserves of the Company at 31st December 2020 amounted to HK\$15,969 million (2019: HK\$36,548 million), as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622).

NOTES TO THE FINANCIAL STATEMENTS

Statement of Cash Flows

22. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO CASH (USED IN)/GENERATED FROM OPERATIONS

	2020 HK\$M	2019 HK\$M
Operating (loss)/profit	(18,144)	3,441
Depreciation of property, plant and equipment	13,848	13,672
Amortisation of intangible assets	573	550
Impairment of property, plant and equipment	3,973	–
Impairment of intangible assets	39	–
Gain on disposal of property, plant and equipment, net	(34)	(175)
Loss on disposal of intangible assets	–	9
Impairment of investment in an associate	56	–
Gain on deemed partial disposal of an associate	–	(114)
Fair value losses/(gains) on equity investments measured at fair value through profit or loss	79	(88)
COVID-19-related rent concessions received	(316)	–
Loss/(gain) from financial derivatives, cash flow hedge reserve and other items not involving cash flows	(41)	(288)
Decrease in stock	93	16
Decrease in trade debtors and other receivables	3,751	1,776
Increase/(decrease) in net amounts due to associates and other related companies	271	(70)
(Decrease)/increase in trade creditors, other payables and deferred liabilities	(7,555)	1,526
(Decrease)/increase in contract liabilities	(7,819)	149
Non-operating movements in debtors and creditors	(11)	(1,946)
Cash (used in)/generated from operations	(11,237)	18,458

23. TOTAL CASH OUTFLOW FOR LEASES

Cash outflows for leases included in the consolidated statement of cash flows comprise the following:

	2020 HK\$M	2019 HK\$M
Within operating cash flows	708	990
Within investing cash flows	192	2
Within financing cash flows	6,298	7,469
	7,198	8,461

Significant non-cash transactions for leases:

During the year ended 31st December 2020, the Group entered into new lease arrangements in respect of property, plant and equipment with a total capitalised value at the inception of HK\$3,797 million (2019: HK\$1,579 million), a significant proportion of which is related to the delivery of leased aircraft.

In addition, the Group settled the financial liabilities designated at fair value through profit or loss, together with the lease embedded derivative instruments of HK\$1,342 million.

24. ANALYSIS OF CASH AND CASH EQUIVALENTS

	2020 HK\$M	2019 HK\$M
Short-term deposits and bank balances (note 16)	6,166	8,881

NOTES TO THE FINANCIAL STATEMENTS

Directors and Employees

25. DIRECTORS' 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				2020 Total HK\$'000	2019 Total HK\$'000
	Basic salary/ Fees (note iii) HK\$'000	Bonus (in respect of 2019) 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		
Executive Directors									
Healy, Patrick (from November 2019)	1,092	106	556	549	35	271	777	3,386	368
Hogg, Rupert (up to August 2019)	–	2,545	–	–	–	–	–	2,545	10,882
Hughes, Gregory	2,209	2,147	771	637	984	308	3,240	10,296	11,412
Lam, Ronald (from August 2019)	1,962	649	2,065	675	–	94	–	5,445	2,050
Loo, Paul (up to August 2019)	–	1,177	–	–	–	–	–	1,177	4,680
Murray, Martin	2,399	2,101	2,642	691	881	371	–	9,085	11,142
Slosar, John (up to November 2019)	–	–	–	–	–	–	–	–	1,779
Tang, Augustus (from August 2019)	3,432	1,637	1,890	1,054	–	114	–	8,127	2,596
Non-Executive Directors									
Cai, Jianjiang (up to December 2020)	575	–	–	–	–	–	–	575	575
Chu, Ivan (up to April 2020)	–	–	–	–	–	–	–	–	–
Low, Michelle	–	–	–	–	–	–	–	–	–
Song, Zhiyong	575	–	–	–	–	–	–	575	575
Swire, Merlin	–	–	–	–	–	–	–	–	–
Swire, Samuel	–	–	–	–	–	–	–	–	–
Xiao, Feng	947	–	–	–	–	–	–	947	854
Zhang, Zhuo Ping (from April 2020)	–	–	–	–	–	–	–	–	–
Zhao, Xiaohang	575	–	–	–	–	–	–	575	575
Independent Non-Executive Directors									
Chan, Bernard	599	–	–	–	–	–	–	599	635
Harrison, John	970	–	–	–	–	–	–	970	970
Lee, Irene (up to May 2019)	–	–	–	–	–	–	–	–	342
Milton, Robert (from May 2019)	970	–	–	–	–	–	–	970	616
Tung, Andrew	796	–	–	–	–	–	–	796	814
2020 Total	17,101	10,362	7,924	3,606	1,900	1,158	4,017	46,068	
2019 Total	20,272	5,829	4,346	6,822	2,282	899	10,351		50,801

(i) Patrick Healy and Augustus Tang participated in the special unpaid leave scheme from 1st March to 31st March 2020 (equivalent to a basic salary cut of 17%) and took a 30% basic salary cut from 1st April to 31st December 2020.

(ii) Gregory Hughes, Ronald Lam and Martin Murray participated in the special unpaid leave scheme from 1st March to 31st March 2020 (equivalent to a basic salary cut of 17%) and took a 25% basic salary cut from 1st April to 31st December 2020.

(iii) 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.

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

NOTES TO THE FINANCIAL STATEMENTS

Directors and Employees

25. DIRECTORS' REMUNERATION (continued)

- (b) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2020 and 2019 are as follows:

	2020	2019
Number of individuals:		
Executive Directors	3	3
Senior managers	2	2
	5	5

Details of their emoluments are as follows:

	Cash			Non-cash				2020 Total HK\$'000	2019 Total HK\$'000
	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		
2020 Total	11,504	8,286	10,613	3,356	3,375	1,319	3,240	41,693	
2019 Total	11,995	7,137	7,492	6,143	3,544	824	10,203		47,338

The bonuses disclosed above are related to services for the previous year.

The number of the above executive directors and senior managers whose emoluments fell within the following bands:

HK\$	2020	2019
6,500,001 – 7,000,000	1	1
7,000,001 – 7,500,000	–	1
7,500,001 – 8,000,000	1	–
8,000,001 – 8,500,000	1	–
9,000,001 – 9,500,000	1	–
10,000,001 – 10,500,000	1	–
10,500,001 – 11,000,000	–	1
11,000,001 – 11,500,000	–	2
	5	5

26. EMPLOYEE INFORMATION – CATHAY PACIFIC AND CATHAY DRAGON

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:

HK\$	2020			2019		
	Director	Flight staff	Other staff	Director	Flight staff	Other staff
0 – 1,000,000	13	14,125	9,496	14	14,897	10,467
1,000,001 – 1,500,000	1	1,066	327	–	622	294
1,500,001 – 2,000,000	–	663	99	1	1,010	89
2,000,001 – 2,500,000	–	440	67	1	398	65
2,500,001 – 3,000,000	1	455	19	1	519	19
3,000,001 – 3,500,000	1	280	9	–	437	9
3,500,001 – 4,000,000	–	187	7	–	248	5
4,000,001 – 4,500,000	–	79	5	–	94	2
4,500,001 – 5,000,000	–	26	–	1	27	–
5,000,001 – 5,500,000	1	2	1	–	4	2
5,500,001 – 6,000,000	–	2	1	–	1	1
6,000,001 – 6,500,000	–	–	2	–	–	1
6,500,001 – 7,000,000	–	–	1	–	–	1
7,000,001 – 7,500,000	–	–	–	–	–	1
7,500,001 – 8,000,000	–	–	1	–	–	–
8,000,001 – 8,500,000	1	–	–	–	–	–
9,000,001 – 9,500,000	1	–	–	–	–	–
10,000,001 – 10,500,000	1	–	–	–	–	–
10,500,001 – 11,000,000	–	–	–	1	–	–
11,000,001 – 11,500,000	–	–	–	2	–	–
	20	17,325	10,035	21	18,257	10,956

NOTES TO THE FINANCIAL STATEMENTS

Related Party Transactions

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:

	2020		2019	
	Associates HK\$M	Other related parties HK\$M	Associates HK\$M	Other related parties HK\$M
Revenue	78	12	412	23
Aircraft maintenance	906	1,830	1,264	2,511
Other operating expenses	230	259	775	308
Dividend income	675	48	394	48
Finance income	7	–	11	–
Property, plant and equipment purchase	–	4	–	128
Lease payments	–	94	–	104

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

- (i) The Group entered into three leases expiring from one to eight years in respect of certain leasehold properties from a related party of the Group for storage of engines and inventories. The amount of rent payable by the Group under the leases is HK\$9 million per month in total, which was determined with reference to amounts charged by the related party to third parties. For the year ended 31st December 2020, lease payments of HK\$86 million (2019: HK\$100 million) were paid. The balances of right-of-use assets and lease liabilities as at 31st December 2020 were HK\$509 million and HK\$541 million respectively (2019: HK\$512 million and HK\$535 million respectively).

The lease payments are included in continuing connected transactions in note 27(a)(ii) below.

- (ii) 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 2020 totalled HK\$2,762 million (2019: HK\$3,947 million). The amounts receivable from the HAECO group for the year ended 31st December 2020 totalled HK\$38 million (2019: HK\$34 million).

As a director of HAECO, Merlin Swire is interested in the HAECO Framework Agreement. Michelle Low is interested as a director of HAECO until her resignation with effect from 1st April 2021.

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

NOTES TO THE FINANCIAL STATEMENTS

Related Party Transactions

27. RELATED PARTY TRANSACTIONS (continued)

- (iii) 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 2020 totalled HK\$70 million (2019: HK\$288 million). The amounts receivable from the Air China group for the year ended 31st December 2020 totalled HK\$50 million (2019: HK\$377 million).

As directors or employees of Air China, Patrick Healy, Song Zhiyong, Xiao Feng and Zhao Xiaohang are interested in the Air China Framework Agreement. Cai Jianjiang was so interested as a director of Air China until his resignation with effect from 29th December 2020.

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

- (iv) The Company has an agreement for services with JSSHK ("JSSHK Services Agreement"). Under the JSSHK Services Agreement, the Group 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 2020, no service fee was payable (2019: HK\$25 million) and expenses of HK\$197 million (2019: HK\$204 million) were reimbursed at cost.

As directors and/or employees of the Swire group, Patrick Healy, Gregory Hughes, Ronald Lam, Martin Murray, Merlin Swire, Samuel Swire, Rebecca Sharpe, Augustus Tang and Zhang Zhuo Ping are interested in the JSSHK Services Agreement. Merlin Swire and Samuel Swire are also so interested as shareholders, directors and employees of the Swire group. Michelle Low is interested as a director and an employee of the Swire group until her resignation with effect from 1st April 2021.

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

- (b) Amounts due from and due to associates and other related companies at 31st December 2020 are disclosed in notes 15 and 17 to the financial statements. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.
- (c) Guarantees given by the Company in respect of bank loan facilities of an associate at 31st December 2020 are disclosed in note 28(b) to the financial statements.
- (d) There were no material transactions with Directors except for those relating to shareholdings (as disclosed in the Directors' Report and the Corporate Governance Report). Remuneration of Directors is disclosed in note 25 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Supplementary Information

28. CAPITAL COMMITMENTS AND CONTINGENCIES

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

	2020 HK\$M	2019 HK\$M
Authorised and contracted for	58,416	62,524
Authorised but not contracted for	5,951	3,189
	64,367	65,713

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

	2020 HK\$M	2019 HK\$M
Associates	1,320	1,430

- (c) 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.
- (d) The Company remains the subject of antitrust proceedings in various jurisdictions. 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 are ongoing and the outcomes are subject to uncertainties. The Company is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with accounting policy 22 on page 133.

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 cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57.12 million on the Company. However, the European Commission's finding against the Company and the imposition of this fine was annulled by the General Court in December 2015 and the fine of Euros 57.12 million was refunded to the Company in February 2016. The European Commission issued a new decision against the Company and the other airlines involved in the case in March 2017. A fine of Euros 57.12 million was imposed on the Company, which was paid by the Company in June 2017. The Company filed an appeal against this latest decision, to which the Commission filed a defence. In December 2017, the Company filed a Reply to this Defence. On 9th March 2018, the European Commission filed a rejoinder to the Company's Reply. The appeal hearing in the General Court took place on 5th July 2019. There is no fixed date for the General Court to issue its decision.

The Company is a defendant in a number of civil claims, including class litigation and third party contribution claims, in a number of countries including Germany, the Netherlands and Norway alleging violations of applicable competition laws arising from the Company's alleged conduct relating to its air cargo operations. The Company is represented by legal counsel and is defending these actions.

NOTES TO THE FINANCIAL STATEMENTS

Supplementary Information

29. FINANCIAL RISK MANAGEMENT

In the normal course of business, the Group is exposed to credit, liquidity, currency, interest rate and fuel price volatility risks. These exposures are managed, sometimes with the use of derivative financial instruments, by the Group treasury function in accordance with the policies approved by the Board.

Derivative financial instruments are used solely for financial risk management purposes and the Group does not use derivative financial instruments for proprietary trading purposes. Derivative financial instruments which constitute an effective 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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk for the Group arises from activities with treasury counterparties and trade debtors.

The Group's exposure to credit risk arising from treasury activities is limited. To manage credit risk in respect of treasury activities, derivative financial transactions, deposit placements and fund transactions 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.

The credit risk with regard to trade debtors is relatively low. Trade debtors mainly represent 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 assessing 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.

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.

The Group measures loss allowances for trade debtors at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix based on the Group's historical credit loss experience. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer bases, the loss allowance based on past due status is assessed on a collective basis.

Expected loss rates are based on historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

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(b) to the financial statements. Collateral and guarantees received in respect of credit terms granted at 31st December 2020 totalled HK\$636 million (2019: HK\$875 million).

The movement in the expected credit loss allowance in respect of trade debtors during the year is set out in note 15 to the financial statements.

29. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient liquid funds and the availability of an adequate amount of committed undrawn credit facilities to meet obligations when due.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising liquid funds and the undrawn credit facilities below) on the basis of expected cash flows. In addition, the Group's liquidity management policy includes monitoring balance sheet liquidity ratios against internal and external benchmarks and maintaining debt financing plans.

At the end of the reporting period, the Group held liquid funds (note 16 to the financial statements) of HK\$19,341 million (2019: HK\$14,864 million) that is available for managing liquidity risk.

(i) Financial arrangements

The Group had access to the following liquid funds and undrawn facilities at the end of the reporting period:

	2020 HK\$M	2019 HK\$M
Liquid funds (note 16)	19,341	14,864
Less: amounts pledged as part of long-term financing		
– debt securities listed outside Hong Kong	(6)	(5)
– bank deposits	(138)	(137)
Committed undrawn facilities	9,396	5,289
Available unrestricted liquidity to the Group	28,593	20,011
	2020 HK\$M	2019 HK\$M
Uncommitted bank overdraft facilities	343	330
Other uncommitted bank facilities	775	100
	1,118	430

Due to the dynamic nature of the underlying businesses, the Group treasury function also maintains funding flexibility through available committed and uncommitted credit facilities. Committed undrawn facilities may be drawn at any time in either Hong Kong dollar or United States dollar. Uncommitted bank overdraft facilities and other uncommitted bank facilities may be drawn at any time and may be terminated by the bank without notice.

(ii) Payment profile of financial liabilities

The analysis has been performed on the same basis as for 2019. The undiscounted payment profile of financial liabilities is outlined as follows:

	2020				
	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					
Loans and other borrowings	(18,527)	(11,808)	(17,132)	(12,891)	(60,358)
Lease liabilities	(7,519)	(6,942)	(14,445)	(12,307)	(41,213)
Other long-term payables	–	(1,072)	(1,804)	(835)	(3,711)
Trade and other payables	(11,065)	–	–	–	(11,065)
Derivative financial liabilities, net	(1,283)	(227)	(281)	(35)	(1,826)
Total	(38,394)	(20,049)	(33,662)	(26,068)	(118,173)

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29. FINANCIAL RISK MANAGEMENT (continued)

	2019				
	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					
Loans and other borrowings	(15,009)	(11,737)	(23,680)	(11,616)	(62,042)
Lease liabilities	(8,233)	(7,518)	(18,546)	(10,807)	(45,104)
Other long-term payables	–	(1,871)	(1,698)	(843)	(4,412)
Trade and other payables	(17,695)	–	–	–	(17,695)
Derivative financial liabilities, net	(579)	(163)	(102)	(32)	(876)
Total	(41,516)	(21,289)	(44,026)	(23,298)	(130,129)

(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. The Group's policy is to reduce foreign currency exposure on currencies other than United States dollars. To manage this exposure, assets are, where possible, financed in those foreign currencies in which sales transactions are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce foreign currency exposure from highly probable forecast sales transactions in foreign currencies. The use of foreign currency borrowings and currency derivatives to hedge highly probable forecast sales transactions in foreign currencies is a key component of the financial risk management process, as the change in value of the highly probable forecast sales transactions in foreign currencies is effectively mitigated by the exchange differences realised on the repayment of foreign currency borrowings and the settlement of currency derivatives.

Hedges of foreign currency risk

The following table details the carrying amount of foreign currency borrowings and the notional amount of currency derivative contracts that have been designated as cash flow hedges of the Group's highly probable forecast sales transactions at the end of the reporting period:

	2020 HK\$M	2019 HK\$M
Currency derivative contracts – outgoing currencies		
Renminbi	1,236	4,923
Euros	360	1,652
Australian dollars	308	1,467
New Taiwan dollars	413	2,347
Japanese yen	208	1,168
Pound sterling	290	1,525
Others	547	3,263
Foreign currency borrowings		
Japanese yen	4,575	5,071
Singapore dollars	–	982
Others	–	33

29. FINANCIAL RISK MANAGEMENT (continued)

	2020 HK\$M	2019 HK\$M
Carrying amount of currency derivative contracts		
Asset	–	181
Liability	(216)	(219)

Currency derivative assets are included in the “Other long-term receivables and investments” (note 10) and “Trade and other receivables” (note 15), and currency derivative liabilities are included in the “Other long-term payables” (note 12) and “Trade and other payables” (note 17) line items in the consolidated statement of financial position respectively.

The foreign currency borrowings designated as hedging instruments to hedge forecast sales transactions will mature over the next nine years.

The Group considers the risk of movement in exchange rates between the Group’s functional currency, which is Hong Kong dollars and the United States dollars to be insignificant under the existing currency peg. Correspondingly, the Group uses currency forward contracts to manage the fluctuation in exchange rates between foreign currencies and United States dollars. The currency forward contracts have a maturity of less than one year from the reporting date and have a weighted average forward exchange rate between the respective foreign currencies and United States dollars as follows:

	2020 USD to	2019 USD to
Renminbi	7.12	7.00
Euros	0.87	0.85
Australian dollars	1.44	1.42
New Taiwan dollars	29.61	29.85
Japanese yen	104.97	105.59
Pound sterling	0.77	0.77

The Group designates currency forward contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of a currency forward contract but instead designates the currency forward contract in its entirety in a hedging relationship.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the foreign currency borrowings and currency derivative contracts, and the highly probable forecast sales transactions based on their currency types, currency amounts and the timing of their respective cash flows.

The main sources of ineffectiveness in these hedging relationships are:

- the effect of the counterparty’s and the Group’s own credit risk on the fair value of the currency forward contracts which is not reflected in the fair value of the hedged cash flows attributable to the change in forward rates; and
- changes in the timing of the hedged transactions.

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29. FINANCIAL RISK MANAGEMENT (continued)

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2020 HK\$M	2019 HK\$M
Balance at 1st January	1,004	1,688
Effective portion of the cash flow hedge recognised in other comprehensive income	(416)	146
Amounts reclassified to profit or loss*	(239)	(916)
Related tax	69	86
Balance at 31st December**	418	1,004
Change in fair value of the derivative instruments during the year	(416)	146
Hedge ineffectiveness recognised in profit or loss	–	–
Effective portion of the cash flow hedge recognised in other comprehensive income	(416)	146

* Amount reclassified to profit or loss are recognised in "Passenger services revenue" and "Cargo services revenue" in the consolidated statement of profit or loss. An insignificant amount is recognised in "Other expenses" in the consolidated statement of profit or loss as the result of discontinued hedge accounting relating to forecast sales transaction no longer expected to occur.

** At 31st December 2020, the Group had HK\$417 million (net of deferred tax) in the hedging reserve from discontinued hedges (2019: HK\$584 million, net of deferred tax).

Exposure to currency risk

The currencies giving rise to a risk of translation in the Group's financial statements in 2020 are primarily United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen (2019: United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen).

At the reporting date, the exposure to these currencies in relation to recognised assets and liabilities was as follows:

	2020					
	USD HK\$M	EUR HK\$M	AUD HK\$M	SGD HK\$M	RMB HK\$M	JPY HK\$M
Group						
Loans due from an associate	290	–	–	–	–	–
Trade debtors and other receivables	2,556	207	90	16	731	187
Liquid funds	15,820	40	33	13	475	42
Loans and other borrowings	(42,780)	–	–	(1,021)	–	(1,044)
Lease liabilities	(28,070)	(46)	(58)	(11)	(76)	(4,405)
Trade creditors and other payables	(3,307)	(118)	(39)	(45)	(200)	(139)
Net exposure	(55,491)	83	26	(1,048)	930	(5,359)

	2019					
	USD HK\$M	EUR HK\$M	AUD HK\$M	SGD HK\$M	RMB HK\$M	JPY HK\$M
Group						
Loans due from an associate	291	–	–	–	–	–
Trade debtors and other receivables	4,872	405	156	32	703	250
Liquid funds	11,878	86	22	63	559	31
Loans and other borrowings	(43,131)	–	–	(982)	–	(1,268)
Lease liabilities	(29,563)	(1,506)	(31)	(21)	(94)	(3,865)
Trade creditors and other payables	(4,088)	(316)	(141)	(92)	(567)	(171)
Net exposure	(59,741)	(1,331)	6	(1,000)	601	(5,023)

29. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollar against the following currencies at the reporting date would have resulted in a change in profit or loss and other equity components by the amounts shown below. It represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant. It has been performed on the same basis as for 2019.

	2020	
	Net increase/(decrease) in profit or loss HK\$M	Net increase/(decrease) in other equity components HK\$M
United States dollars*	2,702	(128)
Euros	2	16
Australian dollars	2	14
Singapore dollars	54	4
Renminbi	(38)	41
Japanese yen	47	238
Net increase	2,769	185

	2019	
	Net increase/(decrease) in profit or loss HK\$M	Net increase/(decrease) in other equity components HK\$M
United States dollars*	3,027	(935)
Euros	2	76
Australian dollars	(2)	65
Singapore dollars	(27)	64
Renminbi	(29)	229
Japanese yen	(1)	306
Net increase/(decrease)	2,970	(195)

* Hong Kong dollars is pegged with United States dollars between the range of 7.75 to 7.85 (US\$: HK\$). The above analysis on five percent appreciation of Hong Kong dollars against United States dollars is for illustrative purpose only.

(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 achieve an appropriate mix of fixed rate and floating rate exposure consistent with the Group's policy. Interest rate risk is measured by using sensitivity analysis on variable rate financial instruments.

Managing interest rate benchmark reform and associated risks

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as "IBOR reform"). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition in some jurisdictions that the Group operates in. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

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29. FINANCIAL RISK MANAGEMENT (continued)

The Finance Committee is monitoring the Group's transition to alternative rates. The Group has identified its contracts that reference IBOR cash flows, determined whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The Finance Committee reports to the Company's Board of Directors quarterly.

Derivatives

The Group holds interest rate swaps for risk management purposes which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to either Hong Kong Interbank Offered Rate (HIBOR) or USD London Interbank Offered Rate (LIBOR). The Group's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association's (ISDA) master agreements.

The Group has adhered to the ISDA 2020 IBOR Fallbacks Protocol and will monitor whether its counterparties will also adhere. If there are counterparties who will not adhere to the protocol, the Group will negotiate with them bilaterally to establish appropriate fallback clauses.

Hedge accounting

As at 31st December 2020, the Group's hedged items and hedging instruments remain indexed to HIBOR or USD LIBOR. These benchmark rates are still quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

The Group's evaluation of the extent to which its hedging relationships are subject to uncertainty as a result of IBOR reform is outlined below.

The Group's HIBOR and USD LIBOR cash flow hedging relationships extend beyond the anticipated cessation date for these interbank offered rates. In regards to HIBOR, the Hong Kong Monetary Authority has not announced any plan to discontinue HIBOR and it is expected that HIBOR will remain a credible financial benchmark. In regards to USD LIBOR, the Group expects USD LIBOR to be discontinued as early as the end of 2021. The preferred alternative reference rate for USD LIBOR is the Secured Overnight Financing Rate (SOFR). However, there is uncertainty about when and how replacement may occur with respect to the relevant hedged items and hedging instruments which hinges on the market developments and the response of the contracted counterparties. Such uncertainty may impact the hedging relationship.

The Group applies the phase 1 amendments to HKFRS 9 which provide accounting reliefs to hedging relationships directly affected by uncertainties related to IBOR reform. The amendments are adopted retrospectively on 1st January 2020 and the accounting reliefs applied are outlined below:

- When considering the highly probable requirement, the Group has assumed that the HIBOR and USD LIBOR interest rates on which the Group's hedged items are based do not change as a result of IBOR reform.
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the HIBOR and USD LIBOR interest rates on which the cash flows of the hedged items and the associated interest rate swaps are based are not altered by IBOR reform.
- The Group has not recycled amounts in the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

The Group's exposure to HIBOR designated in hedging relationships is HK\$752 million and to USD LIBOR designated hedging relationships is US\$1,432 million at 31st December 2020 representing both the nominal amount of the hedging interest rate swap and the principal amount of the hedged Hong Kong dollar and United States dollar denominated variable rate financing liability maturing over the next seven years.

29. FINANCIAL RISK MANAGEMENT (continued)

Hedges of interest rate risk

The following table details the interest rate swaps that have been designated as cash flow hedges of the interest rate risk inherent in the Group's variable rate financing liabilities at the end of the reporting period:

	2020 HK\$M	2019 HK\$M
Notional amount		
United States dollars	11,100	21,627
Hong Kong dollars	752	1,395
Others	–	79
	2020 HK\$M	2019 HK\$M
Carrying amount		
Asset	–	46
Liability	(605)	(273)

Interest rate swap assets are included in the "Other long-term receivables and investments" (note 10) and "Trade and other receivables" (note 15), and interest rate swap liabilities are included in the "Other long-term payables" (note 12) and "Trade and other payables" (note 17) line items in the consolidated statement of financial position respectively.

The swaps will mature over the next seven years matching the maturity of the related financing liabilities and have fixed swap rates ranging from 2.68% to 4.29% (2019: 1.60% to 4.29%).

The Group seeks to hedge the benchmark interest rate component only and applies a hedge ratio of 1:1. The existence of an economic relationship between the interest rate swaps and the variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment dates, the notional amounts of the swaps and the outstanding principal amounts of the financing liabilities.

The main source of ineffectiveness in these hedging relationships is the effect of the counterparty's and the Group's own credit risk on the fair value of the swaps which is not reflected in the fair value of the hedged cash flows attributable to the change in interest rates.

The following table provides a reconciliation of the hedging reserve in respect of interest rate risk and shows the effectiveness of the hedging relationships:

	2020 HK\$M	2019 HK\$M
Balance at 1st January	(319)	11
Effective portion of the cash flow hedge recognised in other comprehensive income	(638)	(353)
Amounts reclassified to profit or loss*	314	(15)
Related tax	30	38
Balance at 31st December**	(613)	(319)
Change in fair value of the derivative instruments during the year	(638)	(353)
Hedge ineffectiveness recognised in profit or loss	–	–
Effective portion of the cash flow hedge recognised in other comprehensive income	(638)	(353)

* Amounts reclassified to profit or loss are recognised in "Finance charges" in the consolidated statement of profit or loss. HK\$105 million of the total amount are the result of discontinued hedge accounting relating to early termination of financing liabilities.

** The entire balance in the hedging reserve relates to continuing hedges.

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29. FINANCIAL RISK MANAGEMENT (continued)

Interest rate profile

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

	2020 HK\$M	2019 HK\$M
Fixed rate instruments		
Loan due from an associate	16	–
Loans and other borrowings	(8,367)	(4,399)
Lease liabilities	(21,191)	(21,889)
Interest rate and cross currency interest rate swaps	(13,664)	(21,862)
Net exposure	(43,206)	(48,150)
	2020 HK\$M	2019 HK\$M
Variable rate instruments		
Loan due from an associate	290	291
Liquid funds	19,341	14,864
Loans and other borrowings	(47,128)	(52,369)
Lease liabilities	(16,443)	(18,603)
Interest rate and cross currency interest rate swaps	13,583	23,222
Net exposure	(30,357)	(32,595)

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 by the amounts shown below. It represents the change in fair value of interest rate swaps and financial liabilities designated at fair value through profit or loss at the reporting date and the increase in net finance charges on variable rate financial instruments. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. It has been performed on the same basis as for 2019.

	2020		2019	
	Net decrease in profit or loss HK\$M	Net increase in other equity components HK\$M	Net decrease in profit or loss HK\$M	Net increase in other equity components HK\$M
Variable rate instruments	(88)	54	(135)	57

(iii) Fuel price risk

Jet fuel is a major component of the Group's operating expenses and the Group's results are significantly affected by the volatility in the price of jet fuel. The Group's policy is to reduce fuel price risk by hedging a percentage of its expected fuel consumption. Crude oil swaps which are economically equivalent to forward contracts are used to achieve the Group's desired hedging position.

29. FINANCIAL RISK MANAGEMENT (continued)

Hedges of fuel price risk

The following table details the crude oil forward contracts that have been designated as cash flow hedges of the Group's highly probable forecast fuel purchase transactions at the end of the reporting period:

		2020	2019
Notional amount	<i>Barrel (million)</i>	21.2	28.9
Carrying amount			
Asset	<i>HK\$M</i>	333	368
Liability	<i>HK\$M</i>	(566)	(425)

Crude oil forward contract assets are included in the "Other long-term receivables and investments" (note 10) and "Trade and other receivables" (note 15), and crude oil forward contract liabilities are included in the "Other long-term payables" (note 12) and "Trade and other payables" (note 17) line items in the consolidated statement of financial position respectively.

The crude oil forward contracts have a maturity of less than two years (2019: two years) from the reporting date and have a weighted average strike price (Brent, US\$/barrel) as follows:

	2020 US\$/barrel	2019 US\$/barrel
Within one year	56.29	63.75
After one year but within two years	47.18	58.48

The price risk of jet fuel purchases includes a crude oil price risk component, even though crude oil is not specified in any contractual arrangement. The Group considers the crude oil component to be a separately identifiable and reliably measureable component of jet fuel price. As such, crude oil forward contracts are designated as a hedge of the crude oil risk component of highly probable forecast fuel purchase transactions.

The Group seeks to hedge the crude oil price risk component only and applies a hedge ratio of 1:1. The main source of ineffectiveness in these hedging relationships is the effect of the counterparty's and the Group's own credit risk on the fair value of the crude oil forward contracts which is not reflected in the fair value of the hedged cash flows attributable to the change in crude oil price.

The following table provides a reconciliation of the hedging reserve in respect of fuel price risk and shows the effectiveness of the hedging relationships:

	2020 HK\$M	2019 HK\$M
Balance at 1st January	(51)	(1,616)
Effective portion of the cash flow hedge recognised in other comprehensive income	(3,207)	1,662
Amounts reclassified to profit or loss*	3,030	100
Related tax	16	(197)
Balance at 31st December**	(212)	(51)
Change in fair value of the derivative instruments during the year	(3,207)	1,662
Hedge ineffectiveness recognised in profit or loss	–	–
Effective portion of the cash flow hedge recognised in other comprehensive income	(3,207)	1,662

* Amounts reclassified to profit or loss are recognised in "Fuel, including hedging losses" in the consolidated statement of profit or loss. HK\$315 million of the total amount are the result of discontinued hedge accounting relating to forecast fuel consumptions no longer expected to occur.

** The entire balance in the hedging reserve relates to continuing hedges.

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29. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis for jet fuel price derivatives

An increase/(decrease) of five percent in the jet fuel price at the reporting date would have resulted in a change in profit or loss and other equity components by the amounts shown below. It represents the change in fair value of crude oil forward contracts at the reporting date. The analysis assumes that all other variables remain constant and it has been performed on the same basis as for 2019.

	2020		2019	
	Net increase/ (decrease) in profit or loss HK\$M	Net increase/ (decrease) in other equity components HK\$M	Net increase in profit or loss HK\$M	Net increase/ (decrease) in other equity components HK\$M
Increase in jet fuel price by 5%	71	376	–	620
Decrease in jet fuel price by 5%	(71)	(376)	–	(620)

(d) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values at 31st December 2020 and 2019 except for the following financial instruments, for which their carrying amounts and fair values are shown below:

	2020		2019	
	Carrying amount HK\$M	Fair value HK\$M	Carrying amount HK\$M	Fair value HK\$M
Loans and other borrowings	(55,495)	(57,692)	(56,768)	(58,721)

The fair value of these financial instruments are measured using valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates.

(e) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 31st December 2020 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.

29. FINANCIAL RISK MANAGEMENT (continued)

	2020				2019			
	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								
Unlisted equity investments at fair value	–	–	815	815	–	–	886	886
Liquid funds								
– funds with investment managers	–	12,648	–	12,648	–	5,079	–	5,079
– other liquid investments	–	6	–	6	–	5	–	5
Derivative financial assets	–	333	–	333	–	2,010	–	2,010
	–	12,987	815	13,802	–	7,094	886	7,980
Liabilities								
Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	(1,415)	–	(1,415)
Derivative financial liabilities	–	(1,810)	–	(1,810)	–	(917)	–	(917)
	–	(1,810)	–	(1,810)	–	(2,332)	–	(2,332)

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 equity investments in Level 3 is determined using discounted cash flow valuation techniques. The significant unobservable input used in the fair value measurement is the discount rate. At 31st December 2020 and 2019, information about fair value measurements using significant unobservable inputs (Level 3) is as follows:

Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	(Negative)/positive impact on fair value (HK\$M)
Unlisted equity investments				
Discount rate	2020: 7.0-9.5% (2019: 7.0-8.5%)	The higher the discount rate, the lower the fair value	2020: +/- 0.5% (2019: +/- 0.5%)	2020: (50)/5 (2019: (28)/30)

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

	2020 HK\$M	2019 HK\$M
Unlisted equity investments at fair value		
At 1st January	886	765
Additions	8	–
Net unrealised gains recognised in other comprehensive income during the year	–	33
Fair value (losses)/gains recognised in profit or loss during the year	(79)	88
At 31st December	815	886

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29. FINANCIAL RISK MANAGEMENT (continued)

Any gain or loss arising from the remeasurement of the Group's equity investments held for strategic purposes are recognised in the investment revaluation reserve (non-recycling) in other comprehensive income. Upon disposal of the equity investments, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

Any gain or loss arising from the remeasurement of the Group's equity investments held for trading purposes are recognised in profit or loss as "Others".

(f) Offsetting financial assets and financial liabilities

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

The table below illustrates the net amounts of financial instruments with the same counterparty:

2020			
	Amount 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	333	(125)	208
Derivative financial liabilities	(1,810)	125	(1,685)
	(1,477)	–	(1,477)

2019			
	Amount 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	2,010	(493)	1,517
Derivative financial liabilities	(917)	493	(424)
	1,093	–	1,093

30. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to maintain an efficient mix of debt and equity in order to achieve a low cost of capital, whilst taking into account the desirability of retaining financial flexibility to pursue business opportunities and adequate access to liquidity to mitigate the effect of unforeseen events, such as the COVID-19 pandemic, on cash flows.

The Group regards the net debt/equity ratio and adjusted net debt/equity ratio (excluding leases without assets transfer components) as the key measurements of capital risk management. The components and calculation of the net debt/equity ratio and adjusted net debt/equity ratio are shown in note 11 to the financial statements and a ten year history of net debt/equity ratio is included on pages 134 and 135 of the annual report. The Group's strategy is to maintain the adjusted net debt/equity ratio within its debt covenants of 2.

The Group is not subject to externally imposed capital requirements.

During the year ended 31st December 2020, no significant changes were made in the objectives, policies or processes relating to the management of the Group's capital risk management.

31. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2020 HK\$M	2019 HK\$M	2020 US\$M	2019 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment		109,527	114,302	14,042	14,654
Intangible assets		10,898	3,475	1,397	446
Investments in subsidiaries		32,483	36,483	4,164	4,677
Investments in associates		10,796	10,797	1,384	1,384
Other long-term receivables and investments		2,206	3,104	283	398
		165,910	168,161	21,270	21,559
Interest-bearing liabilities		(61,118)	(69,960)	(7,836)	(8,969)
Other long-term payables		(2,358)	(2,638)	(302)	(338)
Deferred tax liabilities		(10,352)	(12,207)	(1,327)	(1,565)
		(73,828)	(84,805)	(9,465)	(10,872)
Net non-current assets		92,082	83,356	11,805	10,687
Current assets and liabilities					
Stock		1,522	1,588	195	204
Trade and other receivables		5,377	9,151	690	1,173
Liquid funds		6,070	9,042	778	1,159
		12,969	19,781	1,663	2,536
Interest-bearing liabilities		(23,150)	(19,424)	(2,968)	(2,490)
Trade and other payables		(8,743)	(13,165)	(1,121)	(1,688)
Contract liabilities		(7,892)	(14,914)	(1,012)	(1,912)
Taxation		(1,478)	(1,443)	(189)	(185)
		(41,263)	(48,946)	(5,290)	(6,275)
Net current liabilities		(28,294)	(29,165)	(3,627)	(3,739)
Total assets less current liabilities		137,616	138,996	17,643	17,820
Net assets		63,788	54,191	8,178	6,948
CAPITAL AND RESERVES					
Share capital	19	48,322	17,106	6,195	2,193
Reserves	21	15,466	37,085	1,983	4,755
Total equity		63,788	54,191	8,178	6,948

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 US\$1:HK\$7.8.

Patrick Healy
Director
Hong Kong, 10th March 2021

John Harrison
Director

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32. IMPACTS OF COVID-19

The outbreak of COVID-19 in 2020 has severely impacted the Group's operations and financial position. As a consequence the Group undertook actions and responses. The significant uncertainty that remains as to a recovery profile has influenced certain accounting judgements and estimates impacting the financial statements. Key aspects are set out below:

(a) Liquidity and going concern

To reduce monthly cash burn, increase equity, reduce net debt and gearing, and aid in the Group's recovery, the following actions were undertaken:

(i) Initial cash preservation measures

These included significant capacity reductions, executive pay cuts, two voluntary special leave schemes (with an uptake of 80% and 90% respectively), suspension of projects and non-essential expenditure, concessions from suppliers and deferral of payments to them, and closure of outport crew bases. The Group reached agreement with Airbus to defer delivery of A350-900's and A350-1000's from 2020 and 2021 to 2020-2023, and of A321neo's from 2020-2023 to 2020-2025. Advanced negotiations are taking place with Boeing for the deferral of 777-9 deliveries.

(ii) Recapitalisation

On 9th June 2020, Cathay Pacific announced a recapitalisation plan with aggregate proceeds, before expenses, of approximately HK\$39.0 billion. The plan consisted of three components:

- The Preference Shares and Warrants Issue, being the issuance by the Company to Aviation 2020 Limited (wholly-owned by the Financial Secretary Incorporated as established under the Financial Secretary Incorporation Ordinance (Cap. 1015)) of: (a) Preference Shares for an aggregate subscription price of HK\$19.5 billion; and (b) Warrants to subscribe for the Company's ordinary shares with an aggregate exercise price of approximately HK\$1.95 billion (subject to adjustment);
- The Rights Issue, being a proposed rights issue of 2,503,355,631 Rights Shares on the basis of seven Rights Shares for every eleven existing ordinary shares held on the Rights Issue Record Date at a Rights Subscription Price of HK\$4.68 to raise aggregate proceeds of approximately HK\$11.7 billion; and
- The Bridge Loan, being a committed bridge loan facility to be extended by Aviation 2020 Limited to the Company in an amount of HK\$7.8 billion.

The Bridge Loan facility was extended to the Company on 9th June 2020 and remains undrawn. Rights Shares were fully subscribed and issued on 10th August 2020. The Preference Shares and Warrants Issue completed on 12th August 2020.

The impacts of the Recapitalisation on Earnings per ordinary share, Share capital and Dividends are disclosed in notes 5, 19 and 20 to the financial statements, respectively.

(iii) Restructuring

On 21st October 2020, Cathay Pacific announced the restructuring of the Group.

- Cathay Dragon ceased operations with effect from 21st October 2020 and ongoing regulatory approval was or will be sought for a significant number of Cathay Dragon's routes to be operated by Cathay Pacific and HK Express. This aims to achieve operational efficiency and brand synergy that will result in a more focused, efficient and competitive business for the Group.
- Approximately 5,900 redundancies were effected across the Cathay Pacific Group (including Cathay Dragon), representing approximately 17% of the Cathay Pacific Group's established headcount.
- Hong Kong-based cabin and cockpit crew of Cathay Pacific were asked to transition onto new conditions of service which were designed to match remuneration more closely to productivity and to enhance market competitiveness.

32. IMPACTS OF COVID-19 (continued)

As of 31st December 2020, the restructuring has been substantially implemented. The restructuring costs of HK\$2,383 million were primarily associated with the costs of redundancies. An additional write off of deferred tax assets on tax losses of HK\$1,590 million for Cathay Dragon was also recognised under note 4, Taxation, to the financial statements.

Taking into account the net impact from the above, which resulted in unrestricted liquidity of HK\$28.6 billion at 31st December 2020, and from the proceeds of HK\$6.7 billion guaranteed convertible bonds in February 2021, as disclosed under note 35 to the financial statements, Event after the reporting period, the directors have assessed cash flow forecasts under various scenarios, including extended downside scenarios of continued, heavily subdued passenger demand across the Group's network through the forecast period, and are of the opinion that the Group currently has sufficient unrestricted liquidity for at least the next 12 months from the date of approval of the consolidated financial statements.

(b) Asset carrying values

Following significant changes in the operating environment for the Group, management has reviewed the recoverable amounts of its cash generating units, non-financial assets and investments.

Impairment and related charges of HK\$4,056 million (pre-tax) was recognised for:

- (i) The reduction in asset values (HK\$2,764 million, note 7 to the financial statements) on 34 aircraft that are unlikely to re-enter meaningful economic service again before their retirement or return to lessors, and adjustment to the provision for fulfilling lease return conditions of leased aircraft included therein (HK\$12 million net credit).
- (ii) Impairments on goodwill (totalling HK\$39 million, note 8 to the financial statements) and assets of CPCS and VLS (totalling HK\$1,184 million, note 7 to the financial statements) to reduce the carrying values of assets to their estimated recoverable amounts; being the higher of fair value less costs of disposal and value in use.
- (iii) Impairments on properties under leases totalling HK\$25 million (see note 7 to the financial statements).
- (iv) Impairment on investment in an associate of HK\$56 million (see note 9 to the financial statements).

The above excludes the cross shareholding effect with Air China.

No other impairment was identified. Details on goodwill impairment assessments are disclosed in note 8 to the financial statements.

(c) Government grants and other assistance

The Group recognised HK\$2,689 million of government grants globally, mostly as a result of COVID-19.

HK\$1,503 million in respect of income grants are presented as revenue from other services and recoveries.

HK\$1,186 million in relation to cost reductions and waivers are presented net of the respective cost categories.

There were no unfulfilled conditions or contingencies attached to the grants at the year end.

(i) Hong Kong

Key sources of income grants were from the Hong Kong Employment Support Scheme, of which HK\$886 million was received under the programme, and aircraft subsidies of HK\$235 million for aircraft registered in Hong Kong with a valid Certificate of Airworthiness as at 1st April 2020.

Cost reductions were predominantly from the Hong Kong Airport Authority, representing HK\$1,080 million discounts and waivers on airport facility costs.

(ii) Outport

A total of HK\$368 million was received from outport governments, the majority of which relates to employment support schemes and is presented as revenue from other services and recoveries.

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32. IMPACTS OF COVID-19 (continued)**(d) COVID-19 related rent concessions**

During the year ended 31st December 2020, the Group received rent concessions in the form of a discount on fixed payments as a direct consequence of the COVID-19 pandemic.

The Group has early adopted the Amendment to HKFRS 16 "COVID-19-Related Rent Concessions" and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the year.

Rent concessions of HK\$316 million received have been accounted for as negative variable lease payments recognised in profit or loss. This amount includes concessions of HK\$266 million received from government vendors during the year and included as government grants and other assistance as disclosed above.

33. IMPACT OF FURTHER NEW ACCOUNTING STANDARDS

The HKICPA has issued a number of amendments and a new standard, HKFRS 17 "Insurance Contracts", which are not yet effective for the year ended 31st December 2020 and which have not been adopted in the financial statements. These developments include the following which may be relevant to the Group.

- Amendments to HKFRS 3 "Reference to the Conceptual Framework"
- Amendments to HKAS 16 "Property, Plant and Equipment: Proceeds before Intended Use"
- Amendments to HKAS 37 "Onerous Contracts – Cost of Fulfilling a Contract"
- Annual Improvements to HKFRSs 2018-2020 Cycle

The Group has yet to assess the full impact of these developments. So far it is not expected that the adoption of them will have a significant impact on the consolidated financial statements.

34. COMPARATIVE FIGURES

In note 22 to the financial statements, certain comparative figures have been adjusted to confirm to current year's presentation and to provide a clearer presentation on the impact of changes in working capital, financial derivatives and cash flow hedge reserve over operating cash flows.

35. EVENT AFTER THE REPORTING PERIOD

On 27th January 2021, Cathay Pacific announced the issuance of HK\$6.7 billion guaranteed convertible bonds at a rate of 2.75%, with maturity in 2026. The issuance of bonds was completed on 5th February 2021 and proceeds were fully received on that date.

The bonds will be recorded partly as a financial liability and partly as equity. The financial liability component will be measured by discounting the future cash flows of the bonds at the rate of a similar debt instrument without the conversion option. The difference between the present value of the liability component of the convertible bonds and the total proceeds from the issuance of bonds will be recorded as equity.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

at 31st December 2020

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	100	1,000,000 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 Leasing (H.K.) 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 Finance III Limited	Cayman Islands	Financial services	100	1 share of US\$1
Cathay Pacific MTN Financing Limited	Cayman Islands	Financial services	100	1 share of US\$1
Cathay Pacific MTN Financing (HK) Limited	Hong Kong	Financial services	100	1 share
Cathay Pacific Services Limited	Hong Kong	Cargo terminal	100	1 share
Deli Fresh Limited	Hong Kong	Catering	100	20 shares
Global Logistics System (HK) 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	Operation of scheduled airline services (ceased operations with effect from 21st October 2020)	100	500,000,000 shares
Hong Kong Express Airways Limited	Hong Kong	Operation of scheduled airline services	100	1,000,000 shares
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.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

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	17.74**
Air China Limited	People's Republic of China	Airline	18.13
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	31.94*
Shanghai International Airport Services Co., Limited	People's Republic of China	Ground handling	25*
Vehicle Engineering Services Limited	Hong Kong	Repair and maintenance services for transportation companies	50*

* Shareholding held through subsidiaries.

** Shareholding held through a subsidiary at 17.74%, another 17.04%, held through an economic interest with total holding at 34.78%.

PRINCIPAL ACCOUNTING POLICIES

1. BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (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, 11 and 14 below.

The preparation of the financial statements in conformity with HKFRSs 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. Further details on these estimates and assumptions are disclosed in notes 7, 8, 29(e), 13 and 14 to the financial statements, respectively.

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") for the current accounting period of the Group.

- Amendments to HKFRS 3 "Definition of a Business"
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform"
- Amendment to HKFRS 16 "COVID-19-Related Rent Concessions" (effective for annual periods beginning on or after 1st June 2020)

The Group has early adopted the amendment to HKFRS 16. The Group has not early adopted any other new standards or interpretations that are not yet effective for the current accounting period.

Amendments to HKFRS 3 have no impact on the results and financial position of the Group.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform"

In accordance with the transition provisions, the Group has adopted phase 1 amendments to HKFRS 9, HKAS 39 and HKFRS 7 retrospectively to hedging relationships that existed at the start of the reporting period and to the amount accumulated in the cash flow hedge reserve at that date.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the Inter-Bank Offered Rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in profit or loss. The reliefs will cease to apply when the uncertainty arising from the IBOR reform is no longer present. No changes were required to be made to any of the amounts recognised in the current or prior period as a result of these amendments.

Phase 2 amendments of the IBOR reform was issued in the current period with initial application from 1st January 2021. Phase 2 amendments focus on accounting reliefs once a new benchmark rate is in place. The reliefs have the effect that changing basis for determining contractual cash flows for financial assets and liabilities that are as a direct consequence of IBOR reform and are economically equivalent, will not result in an immediate gain or loss in the profit or loss. The amendments also provide reliefs to allow hedge accounting to continue when the hedge relationships are directly affected by IBOR reform. The Group has not yet moved any existing contracts to new benchmark rates and therefore has not elected to early adopt the phase 2 amendments.

Amendment to HKFRS 16 "COVID-19-Related Rent Concessions"

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

PRINCIPAL ACCOUNTING POLICIES

1. BASIS OF ACCOUNTING (continued)

The Group has elected to early adopt the amendment and has applied the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group since 1st January 2020. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1st January 2020.

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 an associate, goodwill is included in the calculation of any gain or loss.

Non-controlling interests in the consolidated statement of financial position comprise the outside shareholders' proportion of the net assets of subsidiaries and are treated as a part of equity. In the consolidated statement of profit or loss and other comprehensive income, non-controlling interests are disclosed as an allocation of the profit or loss and total comprehensive income for the year. Loans from holders of non-controlling interests are presented as financial liabilities in the consolidated statement of financial position in accordance with accounting policy 9.

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

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 HKFRS 9 "Financial Instruments" are recognised in other comprehensive income and accumulated separately 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 recognised in other comprehensive income and accumulated separately in equity via the statement of changes in 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. The cost relating to an acquired (owned or 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 profit or loss.

Depreciation of owned 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:

Aircraft	over 20-23 years to residual value of the lower of 1% of cost or expected realisable value
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

Depreciation of right-of-use assets is calculated on a straight line basis to write down cost over the underlying lease term to nil residual value. However, if the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, depreciation is calculated on a straight line basis to write down cost over the anticipated useful life of the underlying asset to its estimated residual value in a similar manner as for an item of owned property, plant and equipment.

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.

The anticipated useful life and estimated residual value of owned aircraft have been changed and applied prospectively from 1st January 2020. This change in accounting estimates is applied prospectively from 1st January 2020 and has no significant impact on the results and financial position of the Group.

PRINCIPAL ACCOUNTING POLICIES

6. LEASED ASSETS

The Group leases various aircraft, property facilities and offices and other equipment. Lease contracts are typically made for fixed periods of one to 50 years but may have extension and early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(a) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases with a lease term of 12 months or less and leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions.

After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

With respect to lease agreements, where the Group is required to return the aircraft with adherence to certain maintenance conditions, a provision is made during the lease term. The 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.

Where the lease is capitalised, the right-of-use asset recognised is initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

6. LEASED ASSETS (continued)

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses outlined in accounting policy 5.

The lease liability is remeasured under the following circumstances:

- a change in future lease payments arising from a change in an index or a rate;
- a change in the Group's estimate of the amount expected to be payable under a residual value guarantee;
- a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option; or
- a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification").

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 "Leases". In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

(b) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is credited to profit or loss on a straight line basis over the life of the related lease.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in accounting policy 6(a), then the Group classifies the sub-lease as an operating lease.

7. INTANGIBLE ASSETS

Intangible assets comprise mainly goodwill arising on consolidation and computer software licences. The accounting policy for goodwill is outlined in accounting policy 2.

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. The useful life of expenditure on computer software licences and others is four to twenty years.

8. FINANCIAL ASSETS

Other long-term receivables, bank and security deposits, trade and other short-term receivables are stated at amortised cost less allowance for credit losses.

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. Cash and cash equivalents are assessed for expected credit losses in accordance with the policy set out below.

PRINCIPAL ACCOUNTING POLICIES

8. FINANCIAL ASSETS (continued)

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

Investments are recognised or derecognised by the Group on the date when the purchase or sale of the assets occurs. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows:

Non-equity investments held by the Group are classified into one of the following measurement categories:

- a) amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- b) fair value through other comprehensive income – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- c) fair value through profit or loss, if the investment does not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments are classified as fair value through profit or loss unless the equity investments are not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at fair value through other comprehensive income (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the investment revaluation reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the investment revaluation reserve (non-recycling) is transferred to retained profit. It is not recycled through profit or loss. Dividends from equity investments, irrespective of whether classified at fair value through profit or loss or fair value through other comprehensive income (non-recycling), are recognised in profit or loss as other income.

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

Expected credit losses

The Group applies the expected credit loss model to the financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates).

Financial assets measured at fair value, including equity investments measured at fair value through profit or loss, equity investments designated at fair value through other comprehensive income (non-recycling) and derivative financial assets, are not subject to the expected credit loss assessment.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In measuring expected credit losses, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

8. FINANCIAL ASSETS (continued)

Expected credit losses are measured on either of the following bases:

- i) 12-month expected credit losses: these are losses that are expected to result from possible default events within 12 months after the reporting date; or
- ii) lifetime expected credit losses: these are losses that are expected to result from all possible default events over the expected lives of the items to which the expected credit loss model applies.

Loss allowances for trade debtors are always measured at an amount equal to lifetime expected credit losses.

Expected credit losses on trade debtors are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. For all other financial instruments, the Group recognises a loss allowance equal to 12-month expected credit losses unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- i) failure to make payments of principal or interest on their contractually due dates;
- ii) an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- iii) an actual or expected significant deterioration in the operating results of the debtor; and
- iv) existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Expected credit losses are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the expected credit losses amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for the financial instrument with a corresponding adjustment to its carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial instrument is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of the financial instrument that was previously written off are recognised as a reversal of impairment in profit or loss in the periods in which the recoveries occur.

PRINCIPAL ACCOUNTING POLICIES

9. FINANCIAL LIABILITIES

Loans and other borrowings, lease liabilities and trade and other payables are stated at amortised cost or designated at fair value through profit or loss.

Where long-term loans have been defeased by funds and other investments, those loans 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 loan and the deposit and the Group intends either to settle on a net basis or to realise the deposit and settle the loans simultaneously.

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 currency 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 hedging instruments in a cash flow hedge and hedge exposure to fluctuations in foreign currency rates, interest rates or jet fuel prices, any fair value change is accounted for as follows:

- (a) the effective portion of the fair value change is recognised in other comprehensive income and accumulated separately 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.

Derivative financial instruments which do not qualify as hedging instruments are accounted for as fair value through profit or loss 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 using discounted cash flow valuation techniques in which the significant inputs are based on observable market data where available.

12. PREFERENCE SHARE CAPITAL

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

13. WARRANTS

Warrants in issue fulfill a fixed-for-fixed criterion and are accounted for as equity instruments with no value attached. The financial impact of warrants granted is not recorded in the consolidated financial statements until such time as the warrants are exercised, and no charge is recognised in profit or loss in respect of the value of warrants granted. Upon the exercise of the warrants, the resulting ordinary shares issued are recorded as additional share capital. Warrants which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding warrants.

14. RETIREMENT BENEFITS

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

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

When the benefits of a plan are changed, or when a plan is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Actuarial gains and losses arising from experience adjustments, changes in financial assumptions and return on plan assets excluding interest income are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognised in profit or loss immediately.

For defined contribution schemes, the Group's contributions are charged to profit or loss immediately in the period to which the contributions relate.

15. 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.

16. STOCK

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

17. ASSETS HELD FOR SALE

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

PRINCIPAL ACCOUNTING POLICIES

18. REVENUE RECOGNITION

Passenger and cargo sales are recognised as revenue when the transportation service is provided. Revenue is allocated between passenger services revenue and loyalty programme revenue based on their relative stand-alone selling prices. Revenue 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.

The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component as it is expected at contract inception that the period between the transfer of goods and services and customer payments will be one year or less.

Breakage on passenger revenue is recognised in proportion to the pattern of rights exercised by the customer as reflected by the point of flown to match the timing of revenue recognition with the underlying ticket performance obligations. This is based on historical experience. This estimation is made such that the revenue recognised from passenger ticket breakage is not expected to result in a significant reversal of cumulative revenue in the future.

The value of unflown passenger sales is recognised as a contract liability in the statement of financial position. It is expected to be recognised as passenger services revenue within 12 months when the transportation service is provided.

Contract costs

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission.

The Group recognises the incremental costs of obtaining contracts as an expense when incurred as the amortisation period of the asset that the Group otherwise would have recognised is one year or less from the initial recognition of the asset.

19. LOYALTY PROGRAMME

The Company operates a customer loyalty programme called Asia Miles (the “programme”). As members accumulate miles by travelling on Cathay Pacific or Cathay Dragon flights, or when the Company sells miles to participating partners in the programme, revenue from the initial sales transaction equal to the programme awards at their stand-alone selling price is deferred as a contract 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 stand-alone selling price, 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.

20. GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Income grants are presented as revenue from other services and recoveries.

Cost waivers or cost reductions are disclosed net of respective cost categories and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Grants that compensate for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

21. 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.

22. PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group 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.

23. ONEROUS CONTRACTS

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

24. 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 or joint control over the other party in making financial and operating decisions.

STATISTICS

		2020	2019# (restated)
Consolidated profit or loss summary		<i>HK\$M</i>	
Passenger services		11,950	73,985
Cargo services		27,890	23,810
Other services and recoveries		7,094	9,178
Revenue		46,934	106,973
Operating expenses		(58,639)	(103,646)
Operating (loss)/profit before non-recurring items		(11,705)	3,327
Profit on disposal of investments		–	–
Gain on deemed partial disposal of associates		–	114
Restructuring costs		(2,383)	–
Impairment and related charges		(4,056)	–
Net finance charges		(2,895)	(2,939)
Share of (losses)/profits of associates		(1,282)	1,643
(Loss)/profit before taxation		(22,321)	2,145
Taxation		674	(454)
(Loss)/profit for the year		(21,647)	1,691
Attributable to			
Ordinary shareholders of Cathay Pacific		(21,876)	1,691
Preference shareholder of Cathay Pacific		228	–
Non-controlling interests		1	–
(Loss)/profit for the year		(21,647)	1,691
Dividends paid to ordinary shareholders		–	(1,495)
Consolidated statement of financial position summary		<i>HK\$M</i>	
Property, plant and equipment and intangible assets		146,986	155,265
Long-term receivables and investments		29,394	30,878
Borrowings		(93,129)	(97,260)*
Liquid funds less bank overdrafts		19,341	14,864
Net borrowings		(73,788)	(82,396)*
Net current liabilities (excluding liquid funds, bank overdrafts and current portion of borrowings)		(14,249)	(23,690)
Other long-term payables		(4,210)	(4,806)
Deferred taxation		(10,872)	(12,475)
Net assets		73,261	62,776
Financed by:			
Funds attributable to the ordinary shareholders of Cathay Pacific**		53,529	62,773
Funds attributable to the preference shareholder of Cathay Pacific		19,728	–
Funds attributable to the shareholders of Cathay Pacific		73,257	62,773
Non-controlling interests		4	3
Total equity		73,261	62,776
Per ordinary share			
Ordinary shareholders' funds	<i>HK\$</i>	8.32	15.96
EBITDA	<i>HK\$</i>	(0.97)	4.91
(Loss)/earnings – basic and diluted	<i>HK cents</i>	(424.3)	39.1
Dividend	<i>HK\$</i>	–	0.18
Ratios			
(Loss)/profit margin	%	(46.1)	1.6
Return on capital employed	%	(12.8)	3.5
Dividend cover	<i>Times</i>	–	2.4
Cash interest cover	<i>Times</i>	(5.3)	6.5
Gross debt/equity ratio	<i>Times</i>	1.27	1.55
Net debt/equity ratio	<i>Times</i>	1.01	1.31*
Adjusted net debt/equity ratio (excludes leases without asset transfer components)*	<i>Times</i>	0.75	0.99

* On adoption of HKFRS 16 with effect from 1st January 2019, the Group recognised lease liabilities in relation to leases without asset transfer components. This resulted in a significant increase in the Group's total and net borrowings, and hence the Group's net debt/equity ratio. To allow for comparability of gearing ratios over time and against group borrowing covenants, the Group has chosen to present the adjusted net debt/equity ratio which excludes leases without asset transfer components.

** Funds attributable to the ordinary shareholders are arrived at after deducting preference share capital and unpaid cumulative dividends attributable to the preference shareholder as at 31st December of the respective reporting period.

Includes restated figures on basic and diluted (loss)/earnings per ordinary share. Further details are disclosed in note 5 to the financial statements.

2018# (restated)	2017# (restated)	2016# (restated)	2015# (restated)	2014# (restated)	2013# (restated)	2012# (restated)	2011# (restated)
73,119	66,408	66,926	73,047	75,734	71,826	70,133	67,778
28,316	23,903	20,063	23,122	25,400	23,663	24,555	25,980
9,625	6,973	5,762	6,173	4,857	4,995	4,688	4,648
111,060	97,284	92,751	102,342	105,991	100,484	99,376	98,406
(107,465)	(99,563)	(93,276)	(95,678)	(101,556)	(96,724)	(97,763)	(93,125)
3,595	(2,279)	(525)	6,664	4,435	3,760	1,613	5,281
—	586	—	—	—	—	—	—
—	244	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
(2,114)	(1,761)	(1,301)	(1,164)	(1,158)	(1,019)	(884)	(744)
1,762	2,630	2,049	1,965	772	838	754	1,708
3,243	(580)	223	7,465	4,049	3,579	1,483	6,245
(466)	(308)	(497)	(1,157)	(599)	(675)	(409)	(779)
2,777	(888)	(274)	6,308	3,450	2,904	1,074	5,466
2,345	(1,259)	(575)	6,000	3,150	2,620	862	5,297
—	—	—	—	—	—	—	—
432	371	301	308	300	284	212	169
2,777	(888)	(274)	6,308	3,450	2,904	1,074	5,466
(590)	—	(1,259)	(2,046)	(1,022)	(551)	(1,338)	(3,777)
128,298	122,403	117,390	111,158	108,789	104,737	93,703	82,099
31,585	32,212	27,902	27,947	29,290	27,449	24,776	23,393
(73,877)	(78,394)	(70,169)	(63,105)	(65,096)	(67,052)	(59,546)	(43,335)
15,296	19,094	20,290	20,647	21,098	27,736	24,182	19,597
(58,581)	(59,300)	(49,879)	(42,458)	(43,998)	(39,316)	(35,364)	(23,738)
(20,329)	(18,649)	(21,727)	(23,961)	(22,478)	(19,110)	(15,711)	(16,685)
(4,649)	(3,502)	(7,517)	(15,838)	(10,487)	(1,318)	(3,205)	(3,650)
(12,385)	(11,892)	(10,643)	(8,781)	(9,263)	(9,429)	(8,061)	(6,651)
63,939	61,272	55,526	48,067	51,853	63,013	56,138	54,768
63,936	61,101	55,365	47,927	51,722	62,888	56,021	54,633
—	—	—	—	—	—	—	—
63,936	61,101	55,365	47,927	51,722	62,888	56,021	54,633
3	171	161	140	131	125	117	135
63,939	61,272	55,526	48,067	51,853	63,013	56,138	54,768
16.25	15.53	14.07	12.18	13.15	15.99	14.24	13.89
3.85	2.68	2.56	4.45	3.44	3.04	2.31	3.34
54.2	(29.1)	(13.3)	138.7	72.8	60.6	19.9	122.5
0.30	0.05	0.05	0.53	0.36	0.22	0.08	0.52
2.1	(1.3)	(0.6)	5.9	3.0	2.6	0.9	5.4
4.0	0.8	1.0	8.0	4.7	4.0	2.3	8.4
2.0	(6.4)	(2.9)	2.9	2.2	3.0	2.7	2.6
10.4	4.9	9.1	25.5	20.7	23.8	20.9	41.7
1.16	1.28	1.27	1.32	1.26	1.07	1.06	0.79
0.92	0.97	0.90	0.89	0.85	0.63	0.63	0.43
0.92	0.97	0.90	0.89	0.85	0.63	0.63	0.43

Note:

- (1) The Group adopted HKFRS 16 with effect from 1st January 2019, and has changed its accounting policies in relation to lessee accounting. Under the transition methods chosen, the Group recognised the cumulative effect of the initial application of HKFRS 16 as an adjustment to the opening balance of equity at 1st January 2019. Comparative information in years earlier than 2019 is not restated and in accordance with the policies applicable in those years.
- (2) The Group adopted HKFRS 9 and HKFRS 15 with effect from 1st January 2018, and has changed its accounting policies in relation to financial instruments and revenue recognition. Under the transition methods chosen, the Group recognised the cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1st January 2018. Comparative information in years earlier than 2018 is not restated and in accordance with the policies applicable in those years.

STATISTICS

		2020	2019
Cathay Pacific and Cathay Dragon operating summary			
Available tonne kilometres	Million	14,620	33,077
Revenue tonne kilometres	Million	10,220	24,090
Available seat kilometres	Million	34,609	163,244
Revenue passengers carried	'000	4,631	35,233
Revenue passenger kilometres	Million	20,079	134,397
Revenue load factor	%	67.7	77.4
Passenger load factor	%	58.0	82.3
Cargo carried	'000 tonnes	1,332	2,022
Cargo revenue tonne kilometres	Million	8,309	11,311
Cargo load factor	%	73.3	64.4
Excess baggage carried	Tonnes	563	2,179
Kilometres flown	Million	226	618
Block hours	'000 hours	304	880
Aircraft departures	'000	55	175
Length of scheduled routes network	'000 kilometres	437	670
Number of destinations at year end	Destinations	255	255
Staff number at year end	Number	19,452	27,342
ATK per staff	'000	752	1,256
On-time performance			
Departure (within 15 minutes)	%	86.7	76.3
Average aircraft utilisation			
	Hours per day		
A320-200		1.2	8.9
A321-200		1.1	9.1
A330-300		2.3	9.8
A340-300		–	–
A350-900		3.9	14.6
A350-1000		10.2	14.6
747-400		–	–
747-400F/BCF/ERF/8F		13.1	12.4
777-200/300		1.3	8.0
777-300ER		3.7	14.9
Fleet average		4.3	11.9
Fleet profile			
Cathay Pacific (and Cathay Dragon as at 31st December 2020)			
A320-200		11	–
A321-200		7	–
A321-200neo		2	–
A330-300		51	29
A340-300		–	–
A350-900		27	24
A350-1000		13	12
747-400		–	–
747-400F		–	–
747-400BCF		–	1
747-400ERF		6	6
747-8F		14	14
777-200		–	1
777-300		17	17
777-300ER		51	51
Total		199	155
Aircraft operated by Cathay Dragon (note 1):			
A320-200		–	15
A321-200		–	8
A330-300		–	25
Total		–	48

Note:

(1) Cathay Dragon's remaining aircraft will be transferred to Cathay Pacific and HK Express.

(2) The Group adopted HKFRS 16 with effect from 1st January 2019, and has changed its accounting policies in relation to lessee accounting. Under the transition methods chosen, the Group recognised the cumulative effect of the initial application of HKFRS 16 as an adjustment to the opening balance of equity at 1st January 2019. Comparative information in years earlier than 2019 is not restated and in accordance with the policies applicable in those years.

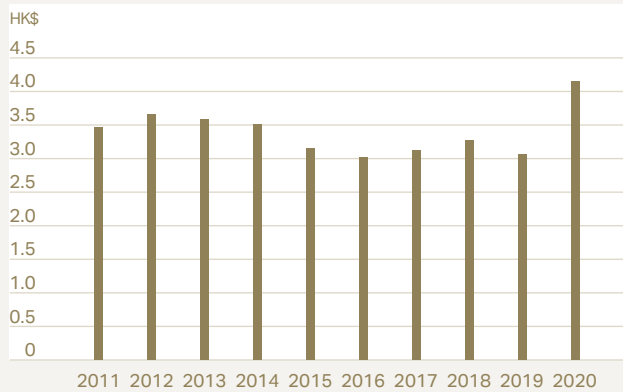
2018	2017	2016	2015	2014	2013	2012	2011
32,387	31,439	30,462	30,048	28,440	26,259	26,250	26,383
24,543	23,679	22,418	22,220	20,722	18,696	18,819	19,309
155,362	150,138	146,086	142,680	134,711	127,215	129,595	126,340
35,468	34,820	34,323	34,065	31,570	29,920	28,961	27,581
130,630	126,663	123,478	122,330	112,257	104,571	103,837	101,536
79.6	79.7	79.5	79.9	78.1	76.6	75.7	76.5
84.1	84.4	84.5	85.7	83.3	82.2	80.1	80.4
2,152	2,056	1,854	1,798	1,723	1,539	1,563	1,649
12,122	11,633	10,675	10,586	10,044	8,750	8,942	9,648
68.8	67.8	64.4	64.2	64.3	61.8	64.2	67.2
2,329	2,449	2,471	2,596	2,699	2,599	2,711	3,103
611	596	579	576	550	512	502	494
877	857	826	823	789	735	715	695
177	175	172	173	167	160	154	146
715	653	636	620	586	576	602	568
232	200	182	179	210	190	179	167
26,623	26,029	26,674	26,833	25,755	24,572	23,844	23,015
1,217	1,208	1,142	1,120	1,104	1,069	1,101	1,146
72.7	71.2	72.1	64.7	70.1	75.5	77.4	82.0
8.8	9.3	9.3	9.4	9.2	9.1	8.8	8.9
10.1	9.4	9.4	9.8	9.9	8.8	8.9	8.4
10.4	10.7	11.4	12.1	12.4	12.0	12.3	12.1
–	3.8	8.3	8.5	11.6	13.3	12.7	13.0
15.0	14.1	12.7	–	–	–	–	–
12.6	–	–	–	–	–	–	–
–	–	5.2	5.7	8.2	10.9	12.7	13.7
12.8	12.5	11.7	11.9	11.8	10.9	11.4	13.8
8.6	8.8	9.4	8.6	8.8	8.3	8.4	8.2
15.6	16.0	16.0	15.9	16.1	15.8	15.7	15.7
12.3	12.3	12.2	12.2	12.2	11.8	12.0	12.3
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
33	37	41	42	40	35	37	33
–	–	4	7	11	11	11	13
22	22	10	–	–	–	–	–
8	–	–	–	–	–	–	–
–	–	–	3	7	13	18	21
–	–	–	4	5	6	6	6
1	–	1	1	1	1	6	8
6	6	6	6	6	6	6	6
14	14	14	13	13	13	8	4
4	5	5	5	5	5	5	5
14	12	12	12	12	12	12	12
52	53	53	53	47	38	29	24
154	149	146	146	147	140	138	132
15	15	15	15	15	15	15	11
8	8	8	8	8	6	6	6
25	24	20	19	18	20	17	15
48	47	43	42	41	41	38	32

Note:

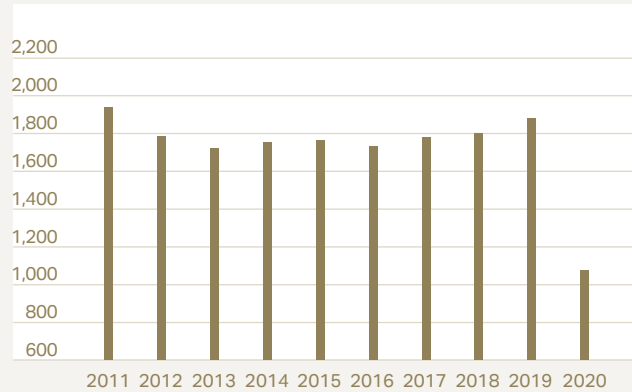
(3) The Group adopted HKFRS 9 and HKFRS 15 with effect from 1st January 2018, and has changed its accounting policies in relation to financial instruments and revenue recognition. Under the transition methods chosen, the Group recognised the cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1st January 2018. Comparative information in years earlier than 2018 is not restated and in accordance with the policies applicable in those years.

STATISTICS

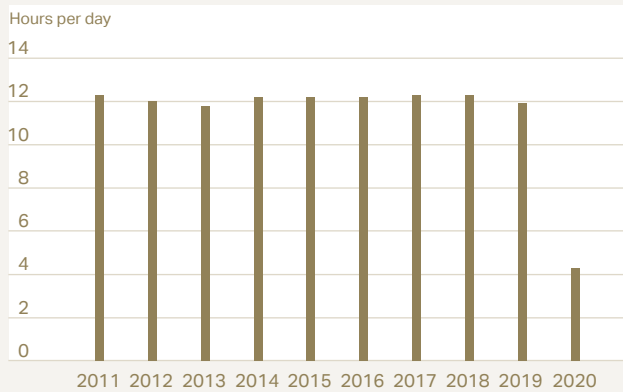
Cost per ATK (with fuel)



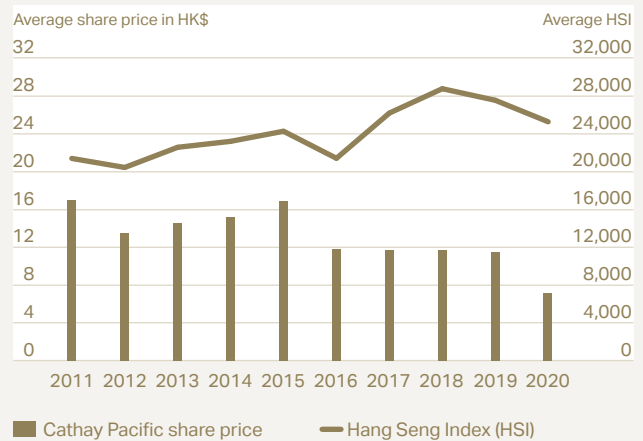
ATK per HK\$'000 staff cost



Aircraft utilisation



Share price



		2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Productivity											
Cost per ATK (with fuel)	HK\$	4.14	3.06	3.27	3.12	3.02	3.14	3.50	3.58	3.65	3.46
ATK per HK\$'000 staff cost	Unit	1,074	1,879	1,801	1,775	1,730	1,764	1,750	1,720	1,785	1,936
Aircraft utilisation	Hours per day	4.3	11.9	12.3	12.3	12.2	12.2	12.2	11.8	12.0	12.3
Share prices											
	HK\$										
High		10.0	13.9	14.7	13.4	14.0	20.6	17.7	16.8	15.9	23.1
Low		5.1	9.5	9.9	10.4	10.1	12.7	13.7	12.2	11.9	11.9
Year-end		7.2	11.5	11.1	12.1	10.2	13.4	16.9	16.4	14.2	13.3
Price ratios (Note)											
	Times										
Price/earnings		(1.7)	26.8	18.6	(37.8)	(69.8)	8.8	21.1	24.6	64.9	9.9
Market capitalisation/ funds attributable to the ordinary shareholders of Cathay Pacific		0.9	0.7	0.7	0.8	0.7	1.1	1.3	1.0	1.0	1.0
Price/cash flows		(3.3)	2.5	2.5	7.4	5.2	3.1	5.4	4.6	6.1	3.4

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

G L O S S A R Y

TERMS

Borrowings Total borrowings (loans, other borrowings and lease liabilities) 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 on each sector multiplied by the sector distance.

Available cargo tonne kilometres ("AFTK") Cargo capacity, measured in tonnes available for the carriage of freight 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.

Cargo revenue tonne kilometres ("RFTK") Amount of cargo, measured in tonnes, carried on each sector multiplied by the sector distance.

Revenue tonne kilometres ("RTK") Traffic volume, measured in tonnes from the carriage of passengers, excess baggage, cargo 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

Earnings/(loss) per ordinary share	=	$\frac{\text{Profit/(loss) attributable to the ordinary shareholders of Cathay Pacific}}{\text{Weighted average number of ordinary shares (by days) in issue for the year}}$	Gross debt/equity ratio	=	$\frac{\text{Borrowings}}{\text{Funds attributable to the shareholders of Cathay Pacific}}$
Profit/(loss) margin	=	$\frac{\text{Profit/(loss) attributable to the shareholders of Cathay Pacific}}{\text{Revenue}}$	Net debt/equity ratio	=	$\frac{\text{Net borrowings}}{\text{Funds attributable to the shareholders of Cathay Pacific}}$
Shareholders' funds per ordinary share	=	$\frac{\text{Funds attributable to the shareholders of Cathay Pacific}}{\text{Total issued and fully paid ordinary shares at end of the year}}$	Adjusted net debt/equity ratio excluding leases without asset transfer components	=	$\frac{\text{Net borrowings less lease liabilities without asset transfer components}}{\text{Funds attributable to the shareholders of Cathay Pacific}}$
Ordinary shareholders' funds per ordinary share	=	$\frac{\text{Funds attributable to the ordinary shareholders of Cathay Pacific}}{\text{Total issued and fully paid ordinary shares at end of the year}}$	Passenger/Cargo load factor	=	$\frac{\text{Revenue passenger kilometres/Cargo revenue tonne kilometres}}{\text{Available seat kilometres/Available cargo tonne kilometres}}$
Return on capital employed	=	$\frac{\text{Operating profit and share of profits of associates less taxation}}{\text{Average of total equity and net borrowings}}$	Revenue load factor	=	$\frac{\text{Total passenger, cargo traffic revenue}}{\text{Maximum possible revenue at current yields and capacity}}$
Dividend cover	=	$\frac{\text{Profit/(loss) attributable to the ordinary shareholders of Cathay Pacific}}{\text{Dividends payable to ordinary shareholders}}$	Breakeven load factor	=	A theoretical revenue load factor at which the traffic revenue equates to the net operating expenses.
Cash interest cover	=	$\frac{\text{Cash generated from operations}}{\text{Net interest paid}}$	Passenger/Cargo yield	=	$\frac{\text{Passenger revenue/Cargo revenue}}{\text{Revenue passenger kilometres/Cargo revenue tonne kilometres}}$
			Cost per ATK	=	$\frac{\text{Total operating expenses of Cathay Pacific and Cathay Dragon}}{\text{ATK of Cathay Pacific and Cathay Dragon}}$

CORPORATE AND SHAREHOLDER INFORMATION

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

INVESTOR RELATIONS

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FINANCIAL CALENDAR

Year ended 31st December 2020

Annual report available to shareholders 8th April 2021

Annual General Meeting 12th May 2021

Six months ending 30th June 2021

Interim results announcement August 2021

Interim dividend payable October 2021

DISCLAIMER

This document may contain certain forward-looking statements that reflect the Company's beliefs, plans or expectations about the future or future events. These forward-looking statements are based on a number of assumptions, current estimates and projections, and are therefore subject to inherent risks, uncertainties and other factors beyond the Company's control. The actual results or outcomes of events may differ materially and/or adversely due to a number of factors, including the effects of COVID-19, changes in the economies and industries in which the Group operates (in particular in Hong Kong and the Chinese mainland), macro-economic and geopolitical uncertainties, changes in the competitive environment, foreign exchange rates, interest rates and commodity prices, and the Group's ability to identify and manage risks to which it is subject. Nothing contained in these forward-looking statements is, or shall be, relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. Neither the Company nor its directors, officers, employees, agents, affiliates, advisers or representatives assume any responsibility to update these forward-looking statements or to adapt them to future events or developments or to provide supplemental information in relation thereto or to correct any inaccuracies.

References in this document to Hong Kong are to Hong Kong SAR, to Macau are to Macao SAR and to Taiwan are to the Taiwan region.

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