



CATHAY PACIFIC

ANNUAL REPORT 2019

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"), with its subsidiaries Hong Kong Dragon Airlines Limited ("Cathay Dragon"), Hong Kong Express Airways Limited ("HK Express") and AHK Air Hong Kong Limited ("Air Hong Kong"), operated 236 aircraft at the end of 2019, directly connecting Hong Kong to 119 destinations in 35 countries worldwide (255 and 54 respectively with codeshare agreements), including 26 destinations in Mainland China. The Cathay Pacific Group is 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 operated 155 passenger and cargo aircraft at 31st December 2019. The Group's other investments include its catering, ground-handling and cargo terminal companies, and corporate headquarters at Hong Kong International Airport.



- Cathay Pacific
- Cathay Pacific Freighter
- Cathay Dragon
- HK Express
- Air Hong Kong

Cathay Dragon, a regional full-service airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 48 aircraft at 31st December 2019. HK Express, a low-cost airline based in Hong Kong offering scheduled services within Asia, is a wholly owned subsidiary of Cathay Pacific operating 24 aircraft at 31st December 2019. Air Hong Kong, an express all-cargo carrier offering scheduled services in Asia, is a wholly owned subsidiary of Cathay Pacific operating nine aircraft at 31st December 2019. Cathay Pacific owns 18.13% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. The Group continues to invest heavily in its

home city. At 31st December 2019 it had 70 new aircraft due for delivery up to 2024.

At 31st December 2019, Cathay Pacific and its subsidiaries employed more than 34,200 people worldwide, of whom around 28,200 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. Cathay Dragon is an affiliate member of **oneworld**.

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

## GROUP FINANCIAL STATISTICS

|   |              | 2019           | 2018    | Change             |
|---|--------------|----------------|---------|--------------------|
| <b>Results</b>  |              |                |         |                    |
| Revenue   | HK\$ million | <b>106,973</b> | 111,060 | <b>-3.7%</b>       |
| Profit attributable to the shareholders of Cathay Pacific | HK\$ million | <b>1,691</b>   | 2,345   | <b>-27.9%</b>      |
| Earnings per share  | HK cents     | <b>43.0</b>    | 59.6    | <b>-27.9%</b>      |
| Dividend per share  | HK\$         | <b>0.18</b>    | 0.30    | <b>-40.0%</b>      |
| Profit margin   | %            | <b>1.6</b>     | 2.1     | <b>-0.5%pt</b>     |
| <b>Financial position*</b>                                |              |                |         |                    |
| Funds attributable to the shareholders of Cathay Pacific* | HK\$ million | <b>62,773</b>  | 63,936  | <b>-1.8%</b>       |
| Net borrowings*   | HK\$ million | <b>82,396</b>  | 58,581  | <b>+40.7%</b>      |
| Shareholders' funds per share*                            | HK\$         | <b>16.0</b>    | 16.3    | <b>-1.8%</b>       |
| Net debt/equity ratio*                                    | Times        | <b>1.31</b>    | 0.92    | <b>+0.39 times</b> |

## OPERATING STATISTICS – CATHAY PACIFIC AND CATHAY DRAGON

|   |   | 2019           | 2018    | Change            |
|---|---|----------------|---------|-------------------|
| Available tonne kilometres ("ATK")          | Million   | <b>33,077</b>  | 32,387  | <b>+2.1%</b>      |
| Available seat kilometres ("ASK")           | Million   | <b>163,244</b> | 155,362 | <b>+5.1%</b>      |
| Available cargo tonne kilometres ("AFTK")** | Million   | <b>17,558</b>  | 17,616  | <b>-0.3%</b>      |
| Revenue tonne kilometres ("RTK")            | Million   | <b>24,090</b>  | 24,543  | <b>-1.8%</b>      |
| Passenger revenue per ASK                   | HK cents  | <b>44.2</b>    | 47.1    | <b>-6.2%</b>      |
| Revenue passenger kilometres ("RPK")        | Million   | <b>134,397</b> | 130,630 | <b>+2.9%</b>      |
| Revenue passengers carried                  | '000  | <b>35,233</b>  | 35,468  | <b>-0.7%</b>      |
| Passenger load factor                       | %   | <b>82.3</b>    | 84.1    | <b>-1.8%pt</b>    |
| Passenger yield                             | HK cents  | <b>53.6</b>    | 55.8    | <b>-3.9%</b>      |
| Cargo revenue per AFTK**                    | HK\$  | <b>1.20</b>    | 1.40    | <b>-14.3%</b>     |
| Cargo revenue tonne kilometres ("RFTK")**   | Million   | <b>11,311</b>  | 12,122  | <b>-6.7%</b>      |
| Cargo carried**                             | '000 tonnes   | <b>2,022</b>   | 2,152   | <b>-6.0%</b>      |
| Cargo load factor**                         | %   | <b>64.4</b>    | 68.8    | <b>-4.4%pt</b>    |
| Cargo yield**                               | HK\$  | <b>1.87</b>    | 2.03    | <b>-7.9%</b>      |
| Cost per ATK (with fuel)                    | HK\$  | <b>3.06</b>    | 3.27    | <b>-6.4%</b>      |
| Fuel consumption per million RTK            | Barrels   | <b>1,867</b>   | 1,830   | <b>+2.0%</b>      |
| Fuel consumption per million ATK            | Barrels   | <b>1,360</b>   | 1,387   | <b>-1.9%</b>      |
| Cost per ATK (without fuel)                 | HK\$  | <b>2.19</b>    | 2.25    | <b>-2.7%</b>      |
| Underlying***cost per ATK (without fuel)    | HK\$  | <b>2.22</b>    | 2.24    | <b>-0.9%</b>      |
| ATK per HK\$'000 staff cost                 | Unit  | <b>1,879</b>   | 1,801   | <b>+4.3%</b>      |
| ATK per staff                               | '000  | <b>1,256</b>   | 1,217   | <b>+3.2%</b>      |
| Aircraft utilisation                        | Hours per day   | <b>11.9</b>    | 12.3    | <b>-3.3%</b>      |
| On-time performance                         | %   | <b>76.3</b>    | 72.7    | <b>+3.6%pt</b>    |
| Average age of fleet                        | Years   | <b>10.3</b>    | 9.9     | <b>+0.4 years</b> |
| GHG emissions                               | Million tonnes of CO <sub>2</sub> e                       | <b>18.0</b>    | 18.0    | <b>-</b>          |
| GHG emissions per ATK                       | Grammes of CO <sub>2</sub> e                              | <b>545</b>     | 556     | <b>-2.0%</b>      |
| Lost time injury rate                       | Number of injuries per 100 full-time equivalent employees | <b>5.33</b>    | 4.55    | <b>+17.1%</b>     |

\* Shareholders' funds, net borrowings and net debt/equity ratio at 31st December 2019 are arrived at after taking account of the effect of HKFRS 16. Disregarding the effect of adopting HKFRS 16, the net debt/equity ratio increased from 0.92 times to 0.96 times. Further details can be found in accounting policy 1.

\*\* Including mail. Mail is no longer referred to separately but mail services continue to be accounted for under cargo services.

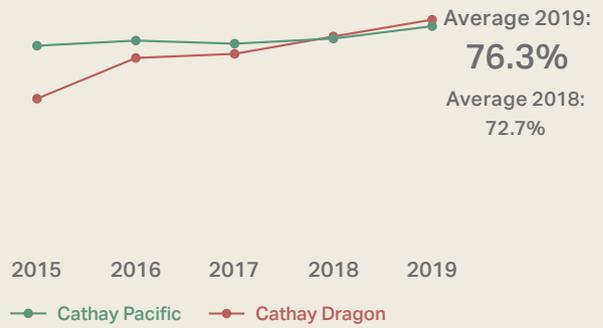
\*\*\* Underlying costs exclude exceptional items, non-recurring item for 2019 and 2018, and are adjusted for the effect of foreign currency movements, as well as the adoption of HKFRS 16 for the year ended 31st December 2019.

## CATHAY PACIFIC / CATHAY DRAGON

### FLEET



### ON-TIME PERFORMANCE



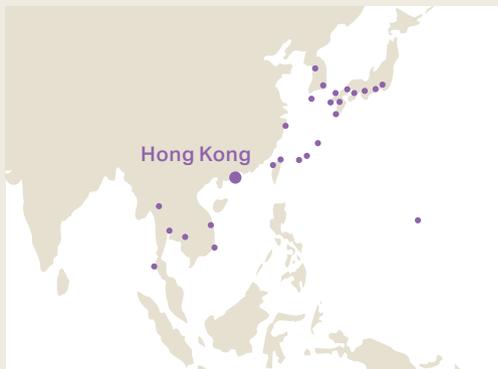
### NETWORK



### CUSTOMER PROPOSITION

- 4x more Inflight Entertainment**
- New food and beverage offerings**
- New products for customers**

## HK EXPRESS



**7 destinations unique to the Group**

### OPERATING HIGHLIGHTS



\* Period from 20th July 2019 to 31st December 2019

## CHAIRMAN'S STATEMENT

### OVERVIEW

2019 was a turbulent year for the Cathay Pacific Group. With our three-year transformation programme starting to bear fruit we delivered a positive performance in the first half of 2019 notwithstanding a difficult environment brought about by geopolitical and trade tensions. However, with social unrest in Hong Kong intensifying over the second half of the year and mounting US-China trade tensions, we experienced a sharp drop in both inbound and outbound passenger traffic. We were faced with an incredibly challenging environment to operate as the Hong Kong economy slipped into recession. As a result, our second-half results – traditionally stronger compared to first-half results – fell well below what we would have hoped for.

The Cathay Pacific Group reported an attributable profit of HK\$1,691 million for 2019. This compares with a HK\$2,345 million profit for 2018. The earnings per share was HK43.0 cents in 2019 compared to an earnings per share of HK59.6 cents in 2018. The Cathay Pacific Group reported an attributable profit of HK\$344 million in the second half of 2019, compared to an attributable profit of HK\$1,347 million in the first half of 2019 and an attributable profit of HK\$2,608 million in the second half of 2018. Cathay Pacific and Cathay Dragon reported an attributable loss of HK\$434 million in the second half of 2019, compared to an attributable profit of HK\$675 million in the first half of 2019 and an attributable profit of HK\$1,253 million in the second half of 2018.

Overall, passenger and cargo yields were under intense pressure in 2019 and both were below those seen in 2018. Events in Hong Kong in the second half of the year significantly reduced load factors, forward bookings and the number of passengers we carried. Inbound traffic was hit hard, particularly on short-haul and Mainland China routes, while outbound traffic also decreased. Demand for premium travel was weak and we became increasingly reliant on lower-yielding transit traffic. We carried 0.7% fewer passengers in 2019 than in 2018.

Cargo demand was depressed all year as a result of US-China trade tensions and was noticeably below that of 2018. However, it did pick up later in 2019 during the traditional high season, reflecting new consumer product, specialist airfreight shipments and restocking ahead of holiday periods. Exports from Mainland China and Hong Kong to trans-Pacific and European markets were more encouraging later in the year. Nevertheless, the cargo business performed significantly below expectations in 2019.

To boost the competitiveness of Hong Kong International Airport as a global cargo hub, the Group together with the Airport Authority of Hong Kong announced in December it would introduce a new Terminal Charge concession effective 1st April 2020. The reduction ranges from 18% to more than 20% compared with the current charge levels and is applicable to shipments from Hong Kong on all four of the Group's airlines.

We benefited from lower fuel prices for most of the year, but were adversely affected by a strong US dollar. There was a 2.7% decrease in non-fuel costs per available tonne kilometre (ATK), reflecting our focus on productivity and efficiency as part of our successful transformation programme.

In July 2019, we completed the acquisition of low-cost carrier HK Express, now a wholly owned subsidiary of Cathay Pacific. In November, we announced that the airline would begin taking delivery of half of our new narrow-body Airbus A321-200neo fleet (16 of 32 new aircraft) from 2022 as part of the Group's efforts to optimise the deployment of the passenger fleets of its airlines.

In May 2019 we built on our commitment to our customers with the launch of our new brand direction, 'Move Beyond', expressing our drive to always exceed their expectations. Despite the challenges of the second half of the year, this period saw some of our most extensive enhancements to the customer experience proposition in recent years. These included a major expansion to our inflight entertainment

content library; new bedding, amenities and culinary options in our First and Business Class cabins; an elevated Economy Class dining experience on our long-haul services departing Hong Kong; and the reopening of our newly renovated Shanghai Pudong lounge. All are designed to give our customers more reasons to fly with us.

## BUSINESS PERFORMANCE OF CATHAY PACIFIC AND CATHAY DRAGON

Passenger revenue in 2019 was HK\$72,168 million, a decrease of 1.3% compared to 2018. RPK traffic increased by 2.9%, while ASK capacity increased by 5.1%, albeit this was less than originally expected. Consequently the load factor decreased by 1.8 percentage points, to 82.3%. Yield decreased by 3.9% to HK\$53.6 cents, reflecting a strong US dollar, intense competition and reduced travel in the second half of 2019 as a result of the social unrest in Hong Kong. Inbound and outbound traffic, particularly on short-haul Mainland China routes, substantially reduced from August to December. We became increasingly reliant on low-yielding transit traffic, which was relatively less affected. Premium class travel was also weak during this period.

To mitigate these challenges, in October we introduced a number of short-term tactical measures, including frequency cuts on more than a dozen routes during the winter season and suspending our service to Medan indefinitely. We examined expenditure to focus on increased productivity and cost saving, along with implementing a hiring freeze, prioritising projects and deferring or cancelling non-critical expenditure.

Cargo revenue in 2019 was HK\$21,154 million, a decrease of 14.2% compared to 2018. RFTK traffic decreased by 6.7%, whilst AFTK capacity decreased by 0.3%. Consequently the load factor decreased by 4.4 percentage points, to 64.4%. Yield decreased by 7.9% to HK\$1.87, reflecting a strong US dollar and weakened cargo demand resulting from intensified US-China trade tensions.

Total fuel costs (before the effect of fuel hedging) decreased by HK\$3,110 million (or 9.8%) compared with

2018. Prices decreased but we flew more. After taking hedging losses into account, fuel costs decreased by HK\$4,454 million or 13.4% compared to 2018. The net cost of fuel is the Airlines' most significant cost, accounting for 28.4% of operating costs in 2019 (compared to 31.4% in 2018).

Non-fuel costs per available tonne kilometre decreased slightly, reflecting our focus on productivity and efficiency.

We continued to take delivery of new and more fuel-efficient aircraft, including six Airbus A350 aircraft. We now have 24 Airbus A350-900 and 12 Airbus A350-1000 aircraft in our fleet. We also took delivery of three used Boeing 777-300 aircraft during the year. At the same time we retired three Boeing 777-200 aircraft, and returned four Airbus A330-300 and one Boeing 777-300ER leased aircraft to their lessors.

## BUSINESS PERFORMANCE OF OTHER SUBSIDIARIES AND ASSOCIATES

HK Express reported a post-acquisition loss for 2019, against expectations of a small profit. The airline suffered from reduced demand to and from Asia as a result of the Hong Kong social unrest.

Air Hong Kong's results attributable to the shareholders of Cathay Pacific improved year on year. In 2019 we owned 100% of the airline compared with 60% in 2018. On a 100% like-for-like basis there was a decrease in profit. This was in part due to gains on disposal of certain aircraft in 2018, and in part due to a new block space agreement and an underlying decrease in capacity and cargo uplift in 2019.

Our airline services subsidiaries generally performed worse than 2018 due to reduced activity and rising cost pressures.

Whilst our share of Air China's results (accounted for three months in arrears) marginally improved, Air China Cargo suffered a significant decline in results as trade tensions escalated, negatively impacting air traffic and yield, and reducing throughput tonnage for its cargo terminals.

## CHAIRMAN'S STATEMENT

### PROSPECTS

Following the impact of social unrest in Hong Kong in the latter half of 2019, the first half of 2020 was expected to be extremely challenging financially, with an already reduced winter season capacity. This has been exacerbated by the significant negative impact of COVID-19, (see note 36 of the Accounts). It is difficult to predict when these conditions will improve. Travel demand has dropped substantially and we have taken a series of short-term measures in response. These have included a sharp reduction of capacity in our passenger network. Despite these measures we expect to incur a substantial loss for the first half of 2020.

We expect our passenger business to be under severe pressure this year and that our cargo business will continue to face headwinds. However, we are cautiously optimistic about cargo following the recent reduction in US-China trade tensions and we have maintained our cargo capacity intact. The US dollar is expected to remain strong in 2020, and intense competition, especially in long-haul economy class, will continue to place significant pressure on yields.

Although there is much uncertainty, we have an incredible brand with a reputation and track record of premium service and commitment to our customers that differentiates us from our competitors. These qualities and values remain at the heart of everything we do and are what will help us through the current challenges.

Our three-year transformation programme has left the business leaner and more resilient, and we move forward with a culture of continuous improvement. Investment in our products, customers and fleet is ongoing. We will continue to take delivery of new aircraft in 2020 and, with the hope that the environment will improve, we will retain the flexibility to add capacity back to the market as soon as we are able to. Our plan to take delivery of 70 new and more fuel-efficient aircraft by 2024 remains unchanged.

The hard work and determination of our teams of professionals over the past year, and in the current COVID-19 crisis, has been outstanding. I would like to thank them for the dedication they have shown during these exceptionally challenging times in ensuring our ability to maintain our operations as smoothly and efficiently as possible. As a Group, we remain unwavering in our commitment to our customers, our people and our home hub, which we have proudly served for more than seven decades. We will continue to invest significantly in delivering an industry-leading experience for our customers and in strengthening Hong Kong's position as a world-class global aviation hub.

**Patrick Healy**

*Chairman*

Hong Kong, 11th March 2020

## REVIEW OF OPERATIONS

2019 was a turbulent year for the Cathay Pacific Group. With our three-year transformation programme starting to bear fruit we delivered a positive performance in the first half of 2019 notwithstanding a difficult environment brought about by geopolitical and trade tensions. However, with social unrest in Hong Kong intensifying over the second half of the year and mounting US-China trade tensions, we experienced a sharp drop in both inbound and outbound passenger traffic. We were faced with an incredibly challenging environment to operate as the Hong Kong economy slipped into recession. As a result, our second-half results – traditionally stronger compared to first-half results – fell well below what we would have hoped for.

Overall, passenger and cargo yields were under intense pressure in 2019 and both were below those seen in 2018. Events in Hong Kong in the second half of the year significantly reduced load factors, forward bookings and the number of passengers we carried. Inbound traffic was hit hard, particularly on short-haul and Mainland China routes, while outbound traffic also decreased. Demand for premium travel was weak and we became increasingly reliant on lower-yielding transit traffic. We carried 0.7% fewer passengers in 2019 than in 2018.

Cargo demand was depressed all year as a result of US-China trade tensions and was noticeably below that of 2018. However, it did pick up later in 2019 during the traditional high season, reflecting new consumer product, specialist airfreight shipments and restocking ahead of holiday periods. Exports from Mainland China and Hong Kong to trans-Pacific and European markets were more encouraging later in the year. Nevertheless, the cargo business performed significantly below expectations in 2019.

### TRANSFORMATION

In 2017, we laid the foundations. We put in place a more efficient head office organisation and reduced our Hong Kong headcount. We formed a central Digital team to improve our use of technology and analyse data, a Lean team which focuses on business process improvement and a Global Business Services team which focuses on shared efficiency.

In 2018, we started restructuring our operations outside Hong Kong, benefited from productivity improvements, increased our digital capabilities and concentrated on developing a shared service capability. We improved inflight dining, passenger comfort, the way we contact passengers and our loyalty programmes. We extended our network at a record rate and improved our service delivery training. We also increased our ancillary sources of revenue.



# CUSTOMER CENTRIC

We place great importance in listening to our customers and are continually enhancing our products and services, both on the ground and in the air, to provide a Life Well Travelled.

## REVIEW OF OPERATIONS

### Passenger services • Loyalty and reward programmes

In 2019, we focused on continuous improvement in our airlines' core activities, which have been broken down into nine processes as part of an effort to obtain stronger cooperation across business functions. Business units proposed over 1,100 transformation initiatives, many of which provided financial or other benefits in 2019. These initiatives included improvements to sourcing, increasing maintenance productivity and the development of new sources of revenue. We have projects focusing on improving our global contact centres and our integrated operations control units. Our SAP system is improving our financial analysis and our ability to control spending. Our crew management programme is improving productivity. We are also investing more in digital and analytical capability, and in process automation. Our Global Business Services team has taken on tasks resulting from the redesign and relocation of some business processes. For our customers we have introduced new seats, installed Wi-Fi across our long-haul fleet of aircraft, enhanced food and beverage offerings in all classes and upgraded our digital platform to give customers more control of their journey – with the promise of more to come.

While the primary goal of the transformation programme is to ensure our business returns to sustainable financial health, the intentions are of course broader and deeper. How we build a winning team and how we create a business that can compete and win beyond 2019 is dependent on the success with which we anticipate and react to changing customer expectations, as well as providing a proposition to our customers that makes us more attractive than competitive alternatives. To that end in the first half of 2019, we commenced a new brand journey, which has the

purpose of moving people forward in life, through our ability to connect them to meaningful people, places and experiences. 'Move Beyond' reflects our determination to challenge what is considered standard; to move beyond and be the very best we can be. We are moving beyond for our customers by bringing personal recognition and a sense of care and reliability to the whole travel experience. Living up to this aspiration will enable Cathay Pacific to reach levels of service and customer experience that place us amongst the world's greatest service brands.

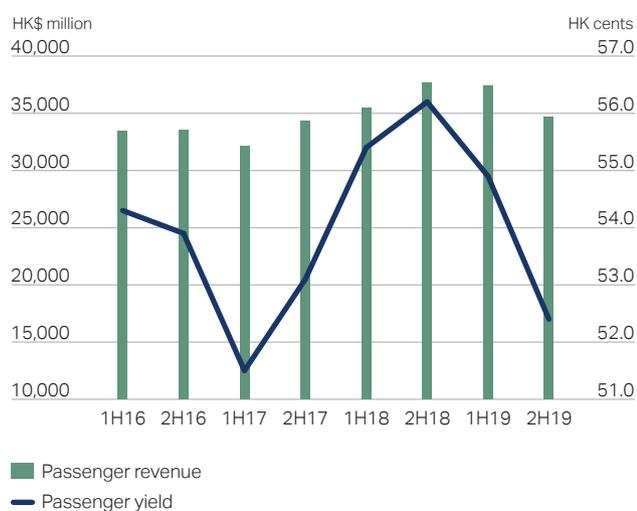
### CATHAY PACIFIC AND CATHAY DRAGON PASSENGER SERVICES

Cathay Pacific and Cathay Dragon carried 35.2 million passengers in 2019, a decrease of 0.7% compared to 2018. Revenue decreased by 1.3% to HK\$72,168 million. RPK traffic increased by 2.9%, while ASK capacity increased by 5.1%, albeit this was less than originally expected. Consequently the load factor decreased by 1.8 percentage points, to 82.3%. Yield decreased by 3.9% to HK53.6 cents, reflecting a strong US dollar, intense competition and reduced travel in the second half of 2019 as a result of the social unrest in Hong Kong. Inbound and outbound traffic, particularly on short-haul Mainland China routes, substantially reduced from August to December. We became increasingly reliant on low-yielding transit traffic, which was relatively less affected. Premium class travel was also weak during this period. To mitigate these challenges, in October we introduced a number of short-term tactical measures, including frequency cuts on more than a dozen routes during the winter season and suspending our service to Medan indefinitely.

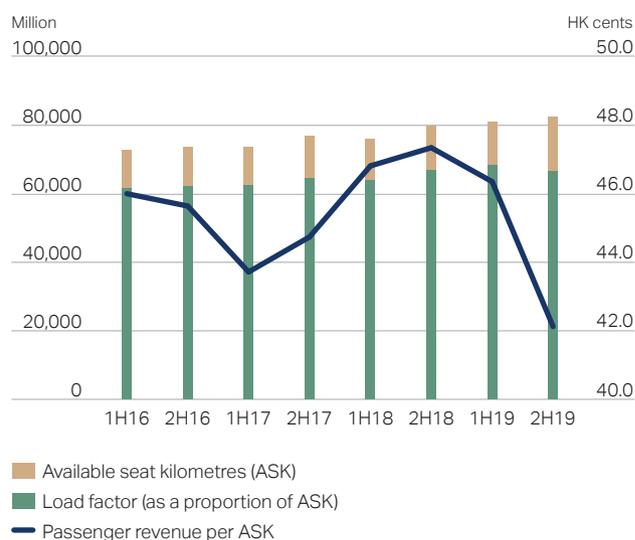
## REVIEW OF OPERATIONS

Passenger services • Loyalty and reward programmes

### Passenger revenue and yield trend



### Passenger capacity, load factor and efficiency



### AVAILABLE SEAT KILOMETRES (“ASK”), LOAD FACTOR AND YIELD CHANGE BY REGION FOR 2019 WERE AS FOLLOWS:

|                                    | ASK (million) |         |        | Load factor (%) |      |         | Yield  |
|------------------------------------|---------------|---------|--------|-----------------|------|---------|--------|
|                                    | 2019          | 2018    | Change | 2019            | 2018 | Change  | Change |
| Americas                           | 43,555        | 40,308  | +8.1%  | 82.9            | 86.5 | -3.6%pt | -5.0%  |
| Europe                             | 34,677        | 32,090  | +8.1%  | 86.0            | 86.2 | -0.2%pt | -5.9%  |
| North Asia                         | 31,914        | 31,533  | +1.2%  | 76.6            | 80.7 | -4.1%pt | -1.9%  |
| Southeast Asia                     | 21,483        | 20,919  | +2.7%  | 81.3            | 83.2 | -1.9%pt | -1.7%  |
| Southwest Pacific                  | 18,799        | 18,494  | +1.6%  | 85.4            | 83.2 | +2.2%pt | -3.0%  |
| South Asia, Middle East and Africa | 12,816        | 12,018  | +6.6%  | 82.2            | 82.3 | -0.1%pt | +0.2%  |
| Overall                            | 163,244       | 155,362 | +5.1%  | 82.3            | 84.1 | -1.8%pt | -3.9%  |

## INNOVATION

- We launched an elevated First Class experience with new soft products and amenities from UK brand Bamford, new tableware and wellness-themed dining options.
- We also introduced enhanced bedding and amenities from UK brand Bamford in our Business Class cabins, including a plusher pillow and the addition of a mattress and slippers – both highly requested by customers. Our new Business Class dining experience has now been rolled out across all long-haul routes since July 2019.
- In November 2019, we launched a new partnership collaboration with Michelin-starred Hong Kong dining group, Black Sheep Restaurants, featuring restaurant-inspired meals in Economy Class on all long-haul routes departing Hong Kong.
- We reopened our newly renovated Shanghai Pudong Cathay Pacific Lounge in July 2019 – the first of our lounges in Mainland China and 11th globally to feature our signature, awards-winning airport lounge design.
- We opened The Sanctuary, a dedicated yoga and wellness area inside The Pier Business Class Lounge at Hong Kong International Airport in January 2019, in collaboration with The Pure Group.

- From January 2019, we have progressively been rolling out a series of new “Hong Kong Flavours” dishes featuring locally inspired cuisine across all cabins on long-haul flights departing Hong Kong.
- We greatly expanded our inflight entertainment library, quadrupling the number of movies, adding more complete boxsets and introducing a live sports channel on our Airbus A350 flights.
- The installation of Wi-Fi across our long-haul fleet of aircraft continued. By the end of the first quarter of 2021, all our long-haul aircraft will have Wi-Fi.
- We relaunched our locally brewed craft beer, Betsy Beer, and made it available to passengers in all cabins on all long-haul flights, as well as in our lounges in Hong Kong International Airport.
- We revamped our cathaypacific.com homepage, upgraded our online booking platform and added live chat function on key pages (booking creation and management, online check-in) to offer easier and faster transactions.
- We continued to take delivery of new and more modern aircraft, including six Airbus A350 aircraft.
- In September 2019, Cathay Pacific won the Best Inflight Service Award at the TTG Travel Awards 2019.
- In September 2019, Cathay Pacific received a Gold award for Excellence in HR Structure Transformation at the HR Distinction Awards 2019 Hong Kong.
- In November 2019, Cathay Pacific was ranked within the top five of the World’s Top 20 Airlines on AirlineRatings.com.
- In November 2019, Cathay Dragon won Best Airline Economy Class at the Business Traveller China Awards. At the same awards, the Cathay Pacific Group’s Marco Polo Club programme won Best Frequent Flyer Programme.
- In December 2019, Cathay Pacific won Best Airline in Asia at the Best in Business Travel Awards by Business Traveler (US) magazine.

## AWARDS

- In February 2019, Cathay Pacific was awarded Best First Class Sparkling and Best Business Class Red at the Cellars in the Sky 2018 awards by Business Traveller magazine.
- In June 2019, Cathay Pacific featured in the World’s Top 10 Airlines of 2019 category at the Skytrax World Airline Awards. At the same awards, Cathay Dragon was runner-up in The World’s Best Regional Airlines 2019 category.
- In September 2019, Cathay Pacific won Best Airport Lounge for The Pier First Class Lounge in Hong Kong at the 2019 Business Traveller Asia-Pacific Awards.

## HOME MARKET – HONG KONG AND PEARL RIVER DELTA

- Our weekly “fanfares” promotions in Hong Kong continue to demonstrate our commitment to offering good-value fares in our home market. There was a “super fanfare” promotion in April.
- Demand during the 2019 Chinese New Year and Easter holiday period was strong, particularly on short-haul routes from Hong Kong.
- Premium class demand was strong at the beginning of the year, particularly on long-haul routes, but tapered off in the second-half of the year placing pressure on yield.
- In November, we launched our annual senior citizen discount for Hong Kong and Macau residents aged 65 and above, and accompanying adults.

## REVIEW OF OPERATIONS

### Passenger services • Loyalty and reward programmes

#### AMERICAS

- Demand on our routes to the Americas fell short of increases in capacity throughout 2019, though this was especially felt in the second half of the year.
- Cathay Pacific introduced a four-times-weekly service to Seattle in March, using Airbus A350-900 aircraft. The service became daily in July.
- In response to reduced demand resulting from social unrest in Hong Kong, in October 2019 Cathay Pacific reduced the frequency of its services to Washington D.C., New York (JFK) and Vancouver for the winter season.
- In October 2019, Cathay Pacific started to use an additional Airbus A350-900 aircraft on its San Francisco route for the winter season.

#### EUROPE

- Demand was strong for Europe throughout 2019 where our passenger traffic almost caught up with the capacity increase.
- Europe was well supported by strong transit traffic from Australia throughout 2019 where additional travel volume offset a yield decrease as a result of a weaker Australian dollar.
- Demand was also good for leisure travel from Taiwan to Europe.
- Cathay Pacific increased the frequency of its services to Madrid from five flights per week to daily between June and October 2019.
- In response to reduced demand resulting from social unrest in Hong Kong, in October 2019 Cathay Pacific reduced the frequency of its service to Paris and suspended its service to Dublin for the winter season.
- Cathay Pacific expanded its codeshare agreement with the Lufthansa group so as to include three more routes to Europe. Cathay Pacific now places its code on Lufthansa's flights between Hong Kong and Frankfurt and Munich, and on Swiss International Air Lines' flights between Hong Kong and Zurich.

#### NORTH ASIA

- Demand for business and leisure travel to and from North Asia was firm in the first half of the year with strong demand on Taiwan routes, but weakened in the second half.
- Cathay Pacific introduced a two-times-weekly seasonal service to Komatsu from April to October 2019.
- Inbound passenger traffic from Mainland China dropped significantly in the second half of the year as travel sentiment weakened due to social unrest in Hong Kong. In 2019, revenue passenger kilometres to and from Mainland China were down 10.9% compared with 2018.
- Our Japan routes performed very well in October with the Rugby World Cup generating good demand, especially from England and South Africa when both teams advanced to the final.
- Cathay Dragon reduced the frequency of its service to Shanghai (Pudong) from 105 to 84 flights per week for the winter season. Among those cancellations, 14 were effective only from November 2019.
- In response to reduced demand resulting from social unrest in Hong Kong, in October 2019 Cathay Pacific and Cathay Dragon reduced the frequency of their services to Beijing, Taipei, Seoul and Osaka, while Cathay Dragon suspended its service to Tokyo (Haneda) for the winter season.

#### SOUTHEAST ASIA

- Demand for travel to Southeast Asia destinations was robust in the first half of 2019 – load factors were strong, but there was pressure on yield. Bookings dropped significantly in the second half of the year as sentiment for travel weakened due to social unrest in Hong Kong.
- In response to reduced demand resulting from social unrest in Hong Kong, in October 2019 Cathay Pacific reduced the frequency of its service to Bangkok, while Cathay Dragon suspended its service to Denpasar (Bali) for the winter season and suspended its service to Medan indefinitely.

## SOUTHWEST PACIFIC

- Traffic on Southwest Pacific routes performed well throughout the year, helped by capacity reductions by other airlines and strong demand for travel to Europe. This was partially offset by a lower yield on transit revenue and a weaker Australian dollar.
- In October 2019, Cathay Pacific suspended its service to Cairns.

## SOUTH ASIA, MIDDLE EAST AND AFRICA

- Traffic on Indian routes benefited from capacity reductions by Indian carriers in the first half of the year.
- Demand for travel to Colombo was negatively affected by the bombings in April 2019. Frequencies were reduced.
- From June 2019, Cathay Pacific increased the frequency of its services to Hyderabad from four to five times weekly.
- From July 2019, Cathay Dragon increased the frequency of its services to Dhaka from four to five times weekly.
- Our South Asia routes performed positively throughout 2019, buoyed by strong demand for travel between India and North America.
- In response to reduced demand resulting from social unrest in Hong Kong, in October 2019 Cathay Pacific reduced the frequency of its service to Colombo for the winter season.
- Yield pressure remained severe on our South Africa route.

## 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.

### 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 26 airlines, more than 150 hotel brands and over 400 dining partners and shops.
- There was a 30% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights compared to last year.
- A new arrangement for mileage expiry was launched, with new miles credited on or after 1st January 2020 being under an activity-based rule. As long as members earn or redeem any of their miles at least once in an 18 month period, the balance of the new miles will remain active.
- Marco Polo Club members are also members of Asia Miles.



# OPERATIONAL EXCELLENCE

Our efficient, environmentally-friendly fleet of aircraft enables us to expand our network, boost our connectivity and provide our customers with more travel choices.

## REVIEW OF OPERATIONS

### Cargo services • Fleet

#### CATHAY PACIFIC AND CATHAY DRAGON CARGO SERVICES

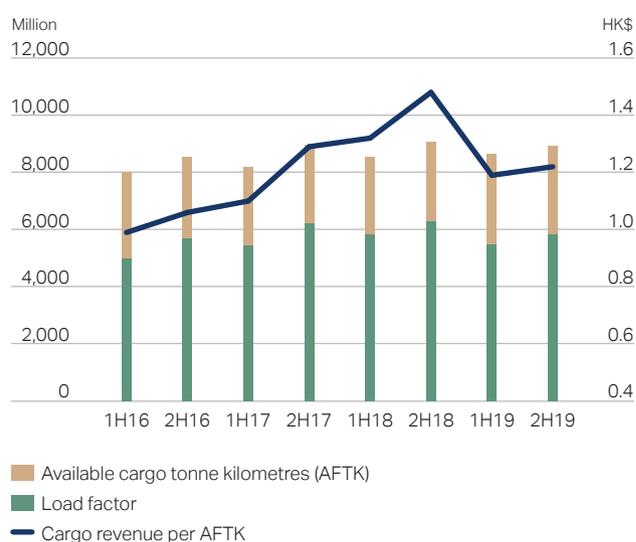
Cargo revenue in 2019 was HK\$21,154 million, a decrease of 14.2% compared to 2018. RFTK traffic decreased by 6.7%,

whilst AFTK capacity decreased by 0.3%. Consequently the load factor decreased by 4.4 percentage points, to 64.4%. Yield decreased by 7.9% to HK\$1.87, reflecting a strong US dollar and weakened cargo demand resulting from intensified US-China trade tensions.

#### Cargo revenue and yield trend



#### Cargo capacity, load factor and efficiency



#### AVAILABLE CARGO TONNE KILOMETRES (“AFTK”), LOAD FACTOR AND YIELD CHANGE FOR 2019 WERE AS FOLLOWS:

|                                  | AFTK (million) |        |              | Load factor (%) |      |                | Yield        |
|----------------------------------|----------------|--------|--------------|-----------------|------|----------------|--------------|
|                                  | 2019           | 2018   | Change       | 2019            | 2018 | Change         | Change       |
| Cathay Pacific and Cathay Dragon | <b>17,558</b>  | 17,616 | <b>-0.3%</b> | <b>64.4</b>     | 68.8 | <b>-4.4%pt</b> | <b>-7.9%</b> |

## REVIEW OF OPERATIONS

### Cargo services • Fleet

- Cargo demand was depressed throughout 2019, reflecting weaker global trade brought about by ongoing US-China trade tensions and a weaker global economy. Overall load factor for 2019 was down compared to the previous year.
- Cargo demand picked up in the latter part of 2019 during the traditional high season, reflecting new consumer product, specialist airfreight shipments and restocking ahead of holiday periods. Exports from Mainland China and Hong Kong to trans-Pacific and European markets were more encouraging later in the year. Nevertheless, the cargo business performed significantly below expectations in 2019.
- In April 2019, we expanded our joint-business agreement with Lufthansa Cargo, so as to start eastbound joint shipments from Europe to Hong Kong.
- In April 2019, Cathay Pacific became the first airline to be awarded CEIV Fresh, IATA's accreditation for perishable cargo handling, reflecting our commitment to provide specialised cargo solutions.
- In July 2019, we introduced a fire containment bag solution that allows for the safe carriage of standalone lithium-ion batteries on our freighter aircraft.
- While we still experienced an increase in demand in the last quarter of the year – the traditional high season – from new consumer products and the e-commerce sector, overall volumes and yields were significantly down in comparison with a record year in 2018.
- We adjusted our freighter services across our network.
- We took our one Boeing 747-400BCF freighter aircraft out of service in September 2019 in preparation for retirement in 2020.
- As of 1st September, Cathay Pacific Cargo is the General Sales and Service Agent (GSSA) for all HK Express cargo activities.

## FLEET DEVELOPMENT

- At 31st December 2019, Cathay Pacific operated 155 aircraft, Cathay Dragon operated 48 aircraft, HK Express operated 24 aircraft and Air Hong Kong operated nine aircraft (a total of 236 aircraft). There are 70 new aircraft on order for delivery up to 2024.
- We took delivery of two Airbus A350-900 and four Airbus A350-1000 aircraft in 2019 and now have a total of 24 Airbus A350-900 and 12 Airbus A350-1000 in our fleet. We expect to have 28 Airbus A350-900 in service by the end of 2020 and 20 Airbus A350-1000 aircraft in service by the end of 2021.
- We took delivery of three used Boeing 777-300 aircraft in 2019. Three Boeing 777-200 aircraft were retired and four Airbus A330-300s and one Boeing 777-300ER were returned to their lessors.
- We expect to take delivery of 17 aircraft in 2020, including four Airbus A350-900, three Airbus A350-1000, six Airbus A321-200neo and four Airbus A320-200neo aircraft.

## FLEET PROFILE\*

| Aircraft type                               | Number at 31st December 2019 |           |           | Total      | Average age | Firm orders |           |                   | Total            | Expiry of operating leases** |           |           |          |          |                |
|---|------------------------------|-----------|-----------|------------|-------------|-------------|-----------|-------------------|------------------|------------------------------|-----------|-----------|----------|----------|----------------|
|   | Leased**                     |           | Operating |            |             | '20         | '21       | '22 and beyond    |                  | '20                          | '21       | '22       | '23      | '24      | '25 and beyond |
|   | Owned                        | Finance   |           |            |             |             |           |                   |                  |                              |           |           |          |          |                |
| <b>Aircraft operated by Cathay Pacific:</b> |                              |           |           |            |             |             |           |                   |                  |                              |           |           |          |          |                |
| A330-300                                    | 17                           | 10        | 2         | 29         | 12.4        |             |           |                   |                  | 1                            |           |           | 1        |          |                |
| A350-900                                    | 18                           | 4         | 2         | 24         | 2.6         | 4           |           |                   | 4                |                              |           |           | 2        |          |                |
| A350-1000                                   | 9                            | 3         |           | 12         | 1.1         | 3           | 5         |                   | 8                |                              |           |           |          |          |                |
| 747-400BCF                                  | 1                            |           |           | 1          | 28.5        |             |           |                   |                  |                              |           |           |          |          |                |
| 747-400ERF                                  |                              | 6         |           | 6          | 11.0        |             |           |                   |                  |                              |           |           |          |          |                |
| 747-8F                                      | 3                            | 11        |           | 14         | 6.9         |             |           |                   |                  |                              |           |           |          |          |                |
| 777-200                                     | 1                            |           |           | 1          | 23.5        |             |           |                   |                  |                              |           |           |          |          |                |
| 777-300                                     | 17                           |           |           | 17         | 18.2        |             |           |                   |                  |                              |           |           |          |          |                |
| 777-300ER                                   | 22                           | 8         | 21        | 51         | 7.8         |             |           |                   |                  | 6                            | 4         | 2         | 3        | 6        |                |
| 777-9                                       |                              |           |           |            |             | 6           | 15        |                   | 21               |                              |           |           |          |          |                |
| <b>Total</b>                                | <b>88</b>                    | <b>42</b> | <b>25</b> | <b>155</b> | <b>8.7</b>  | <b>7</b>    | <b>11</b> | <b>15</b>         | <b>33</b>        | <b>1</b>                     | <b>6</b>  | <b>4</b>  | <b>2</b> | <b>3</b> | <b>9</b>       |
| <b>Aircraft operated by Cathay Dragon:</b>  |                              |           |           |            |             |             |           |                   |                  |                              |           |           |          |          |                |
| A320-200                                    | 5                            |           | 10        | 15         | 14.5        |             |           |                   |                  | 4 <sup>(a)</sup>             | 3         | 3         |          |          |                |
| A321-200                                    | 2                            |           | 6         | 8          | 17.1        |             |           |                   |                  | 1                            | 2         | 2         | 1        |          |                |
| A321-200neo                                 |                              |           |           |            |             | 6           | 8         | 2                 | 16               |                              |           |           |          |          |                |
| A330-300                                    | 21 <sup>(b)</sup>            |           | 4         | 25         | 15.2        |             |           |                   |                  | 1                            |           |           |          | 3        |                |
| <b>Total</b>                                | <b>28</b>                    |           | <b>20</b> | <b>48</b>  | <b>15.3</b> | <b>6</b>    | <b>8</b>  | <b>2</b>          | <b>16</b>        | <b>6</b>                     | <b>5</b>  | <b>5</b>  | <b>1</b> | <b>3</b> |                |
| <b>Aircraft operated by HK Express:</b>     |                              |           |           |            |             |             |           |                   |                  |                              |           |           |          |          |                |
| A320-200                                    |                              |           | 8         | 8          | 10.2        |             |           |                   |                  |                              | 3         |           | 1        | 4        |                |
| A321-200                                    |                              |           | 11        | 11         | 2.2         |             |           |                   |                  |                              |           |           |          | 11       |                |
| A320-200neo                                 |                              |           | 5         | 5          | 2.5         | 4           | 1         |                   | 5 <sup>(c)</sup> |                              |           |           |          | 5        |                |
| A321-200neo                                 |                              |           |           |            |             |             |           | 16 <sup>(d)</sup> | 16               |                              |           |           |          |          |                |
| <b>Total</b>                                |                              |           | <b>24</b> | <b>24</b>  | <b>4.9</b>  | <b>4</b>    | <b>1</b>  | <b>16</b>         | <b>21</b>        |                              | <b>3</b>  |           | <b>1</b> | <b>4</b> | <b>16</b>      |
| <b>Aircraft operated by Air Hong Kong:</b>  |                              |           |           |            |             |             |           |                   |                  |                              |           |           |          |          |                |
| A300-600F***                                |                              |           | 9         | 9          | 15.6        |             |           |                   |                  | 1                            |           | 5         | 3        |          |                |
| <b>Total</b>                                |                              |           | <b>9</b>  | <b>9</b>   | <b>15.6</b> |             |           |                   |                  | <b>1</b>                     |           | <b>5</b>  | <b>3</b> |          |                |
| <b>Grand total</b>                          | <b>116</b>                   | <b>42</b> | <b>78</b> | <b>236</b> | <b>9.9</b>  | <b>17</b>   | <b>20</b> | <b>33</b>         | <b>70</b>        | <b>8</b>                     | <b>14</b> | <b>14</b> | <b>7</b> | <b>7</b> | <b>28</b>      |

\* The table includes two aircraft parked in preparation for retirement (one Boeing 777-200 aircraft and one Boeing 747-400BCF freighter) and does not reflect aircraft movements after 31st December 2019. The two parked aircraft were deregistered in February 2020.

\*\* With effect from 1st January 2019, leases previously classified as operating leases are accounted for in a similar manner to finance leases as a result of an accounting standard change (HKFRS 16; see accounting policy 1). The majority of operating leases captured in the above table are within the scope of HKFRS 16.

\*\*\* Under the new block space agreement Air Hong Kong entered into with DHL International which commenced on 1st January 2019, the nine Airbus A300-600F freighters are considered 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 2020. The aircraft was returned to its lessor.

(b) 11 of these aircraft are owned by Cathay Pacific and leased by Cathay Dragon.

(c) These aircraft are operating leased.

(d) These aircraft, ordered by Cathay Dragon, will be operated by HK Express from 2022.

# BUILDING THE HONG KONG HUB

A modern fleet with value fare proposition enables HK Express to leverage new opportunities within the region and help strengthen Hong Kong's position as Asia's leading international aviation hub.



## REVIEW OF OPERATIONS

### Review of other subsidiaries and associates

#### REVIEW OF OTHER SUBSIDIARIES AND ASSOCIATES

The share of profits from other subsidiaries and associates in 2019 decreased by 26.1% to HK\$1,450 million from HK\$1,961 million. The decline was mainly attributable to losses in HK Express since acquisition, lower cargo tonnage handled through our cargo terminal and a reduced share of profits from Air China Cargo. Set out below is a review of the performance and operations of principal subsidiaries and associates.

#### HONG KONG EXPRESS AIRWAYS LIMITED (“HK EXPRESS”)

- On 19th July 2019, Cathay Pacific completed the acquisition of 100% of the share capital of Hong Kong Express Airways Limited.
- HK Express is Hong Kong’s only low-cost carrier, focusing on serving leisure travel destinations.
- At the end of 2019, HK Express operated an all Airbus narrow-body fleet of 24 aircraft, including eight Airbus A320-200 aircraft, 11 Airbus A321-200 aircraft and five Airbus A320-200neo aircraft. The young fleet had an average age of just below five years. It is expected to take delivery of five more Airbus A320-200neo aircraft by early 2021.
- HK Express will receive an order previously made by 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.
- HK Express operates flights to 24 destinations including Bangkok, Da Nang, Fukuoka, Nagoya, Ningbo, Osaka, Phuket, Saipan, Seoul, Taichung and Tokyo.
- After the acquisition, HK Express launched the Hong Kong-Okinawa service and suspended the Hong Kong-Chiang Rai service.
- On-time performance was 90.4% within 15 minutes during the post-acquisition period.
- For the period from 20th July to 31st December 2019, capacity amounted to 4,583 million available seat kilometres. The average load factor was 91.5% during the period.
- HK Express recorded an after tax loss during the post-acquisition period of HK\$246 million, against expectations of a small profit. The airline suffered from reduced demand to and from Asia as a result of the Hong Kong social unrest.
- Ancillary revenue penetration as a percentage of total revenue was 21.7% during the period. 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.
- Acquisition details are further detailed in note 26 to the financial statements.

## REVIEW OF OPERATIONS

### Review of other subsidiaries and associates

|  | HK Express   |
|--|--|
|  | Period from 20th July 2019<br>to 31st December 2019<br>HK\$M |
| <b>Revenue</b>                               |  |
| Passenger services*                          | 1,817  |
| Cargo services                               | 23   |
| Other services and recoveries*               | 53   |
| <b>Total revenue</b>                         | <b>1,893</b>   |
| <b>Expenses</b>                              |  |
| Staff  | (307)  |
| Inflight service and passenger expenses      | (23)   |
| Landing, parking and route expenses          | (476)  |
| Fuel cost                                    | (459)  |
| Aircraft maintenance                         | (244)  |
| Aircraft depreciation and rentals            | (386)  |
| Other depreciation, amortisation and rentals | (17)   |
| Commissions                                  | (7)  |
| Others                                       | (170)  |
| <b>Operating expenses</b>                    | <b>(2,089)</b>   |
| Net finance charges                          | (112)  |
| <b>Total operating expenses</b>              | <b>(2,201)</b>   |
| <b>Loss before taxation</b>                  | <b>(308)</b>   |
| Taxation                                     | 62   |
| <b>Loss after taxation</b>                   | <b>(246)</b>   |

\* 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.

|                                      | HK Express  |
|--------------------------------------|---|
|                                      | Period from 20th July 2019<br>to 31st December 2019 |
| <b>Operating Statistics</b>          |   |
| Available seat kilometres ("ASK")    | <i>Million</i> 4,583                                |
| Passenger revenue per ASK            | <i>HK cents</i> 40.8                                |
| Revenue passenger kilometres ("RPK") | <i>Million</i> 4,195                                |
| Revenue passengers carried           | <i>'000</i> 1,888                                   |
| Passenger load factor                | <i>%</i> 91.5                                       |
| Passenger yield                      | <i>HK cents</i> 44.6                                |
| Cost per ASK (with fuel)             | <i>HK cents</i> 46.0                                |
| Fuel consumption per million ASK     | <i>Barrels</i> 150                                  |
| Fuel consumption per million RPK     | <i>Barrels</i> 164                                  |
| Cost per ASK (without fuel)          | <i>HK cents</i> 36.0                                |
| ASK per HK\$'000 staff cost          | <i>Unit</i> 14,932                                  |
| ASK per staff                        | <i>'000</i> 4,287                                   |
| Aircraft utilisation                 | <i>Hours per day</i> 8.9                            |
| On-time performance                  | <i>%</i> 90.4                                       |
| Average age of fleet                 | <i>Years</i> 4.9                                    |

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

- Air Hong Kong principally operates express cargo services for DHL Express.
- At the end of 2019, Air Hong Kong operated nine dry leased Airbus A300-600F freighters, one wet leased Airbus A300-622RF freighter, one wet leased A330-243F freighter and two wet leased A330-300 passenger-to-freighter converted freighters.
- Air Hong Kong operates six flights per week services to Bangkok, Ho Chi Minh City, Osaka, Penang (via Ho Chi Minh City), Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week services to Beijing, Cebu (via Manila) and Nagoya.
- On-time performance was 87% within 15 minutes.
- Compared with 2018, capacity decreased by 3.7% to 703 million available tonne kilometres. The load factor increased by 2.5 percentage points to 68.6%. Revenue tonne kilometres decreased by 0.2% to 482 million.
- At the end of 2018, Air Hong Kong became a wholly owned subsidiary of Cathay Pacific, having been previously 60% owned by Cathay Pacific. Air Hong Kong continues to operate an agreed freighter network to destinations in Asia for DHL International. It does so under a new block space agreement with DHL International for a 15-year term, which commenced on 1st January 2019.
- Air Hong Kong's results attributable to the shareholders of Cathay Pacific improved year on year. On a 100% like-for-like basis there was a decrease in profit. This was in part due to gains on disposal of certain aircraft in 2018, and in part due to the new block space agreement and the underlying decrease in capacity and cargo uplift in 2019.

## 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 51 international airlines in Hong Kong. It produced 29.6 million meals and handled 70,520 flights in 2019 (representing a daily average of 81,000 meals and 193 flights, a decrease of 1.3% and 4.0% respectively from 2018).
- Profits fell in 2019. Revenue decreased because of a decrease in business volume. Labour and overhead costs were higher.
- The profits of the flight kitchens outside Hong Kong decreased compared to the previous year.

### CATHAY PACIFIC SERVICES LIMITED ("CPSL")

- CPSL, a wholly owned subsidiary, owns and operates the Group's cargo terminal at Hong Kong International Airport. The terminal's annual handling capacity is 2.6 million tonnes. At the end of 2019, CPSL provided cargo handling services to 14 airlines.
- CPSL handled 1.9 million tonnes of cargo in 2019, 53% of which were trans-shipments. Export and import shipments accounted for 31% and 16% respectively of the total.
- The financial results in 2019 declined compared with those of 2018. This was mainly due to lower tonnage handled.

### 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 2019, it provided ground handling services to 21 airlines, including Cathay Pacific and Cathay Dragon.
- In 2019, HAS had 44% and 5% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport. The number of flights handled under ramp handling business increased by 0.3% in 2019. The number of flights handled under passenger handling business decreased by 42% against last year. The reduction in passenger handling business followed the transfer of Cathay Dragon's passenger handling business to Cathay Pacific in March 2018.

## REVIEW OF OPERATIONS

### Review of other subsidiaries and associates

- The financial results in 2019 were worse than those in 2018. This reflected the loss of the Cathay Dragon passenger handling business and the reduction of customers' flight frequencies in the second half of the year.

### VOGUE LAUNDRY SERVICE LIMITED ("VOGUE LAUNDRY")

- Vogue Laundry, a wholly owned subsidiary, provides a comprehensive range of services in laundry and dry cleaning of commercial linen, uniform and guest garment.
- It operates a commercial laundry plant in Yuen Long Industrial Park and runs 13 valet shops in Hong Kong serving retail customers at the end of 2019.
- Vogue Laundry processed 102 million pieces of laundry items in 2019 comparing to 107 million pieces in 2018. The financial results of 2019 declined compared with that of 2018 mainly due to lower volume of laundry items being handled.

## PRINCIPAL ASSOCIATES

### AIR CHINA LIMITED ("AIR CHINA")

- Air China, in which Cathay Pacific had a 18.13% interest at 31st December 2019, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China.
- At 31st December 2019, Air China operated 327 domestic and 124 international (including regional) routes to 43 countries and regions, including 65 overseas cities, three regional cities and 119 domestic cities.
- We are represented on the Board of Directors of Air China and equity account for our share of Air China's results.
- Our share of Air China's results is based on its financial statements drawn up three months in arrears. Consequently, our 2019 results include Air China's results for the 12 months ended 30th September 2019, adjusted for any significant events or transactions in the period from 1st October 2019 to 31st December 2019.
- For the 12 months ended 30th September 2019, Air China's financial results improved compared to those for the 12 months ended 30th September 2018.

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

- Air China Cargo is the leading provider of air cargo services in Mainland China. It has its headquarters in Beijing. Its main operating base is in Shanghai Pudong.
- In October 2019, the Cathay Pacific Group's equity and economic interest in Air China Cargo of 49.00% was reduced to 34.78%, when the China National Aviation Holding Company group, as part of a mixed ownership reform to transform the business from an airport-to-airport service provider into a total logistics solution provider, injected certain equity interests and cash. A gain of HK\$114 million was recorded on this deemed partial disposal.
- At 31st December 2019, Air China Cargo operated 15 freighters. It flies to nine cities in Mainland China and 11 cities outside Mainland China. Taking into account its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to more than 200 destinations.
- In 2019, Air China Cargo's financial results declined from 2018 due to slowing air cargo market.

## DATA SECURITY INCIDENT

In October 2018, Cathay Pacific announced that it had discovered unauthorised access to passenger data and notified privacy regulators in affected jurisdictions, including the Hong Kong Privacy Commissioner for Personal Data. In June 2019, the Hong Kong Privacy Commissioner published a report on the data incident. Investigations by privacy regulators in Singapore, Turkey, Taiwan and the United Kingdom have been closed. Cathay Pacific continues to respond to the investigations and enquiries of other privacy regulators.

## 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 19 set out on page 137.

# PRODUCTIVITY & VALUE FOCUSED

By leaning our work processes and being more agile in our decision making, we are focusing in areas which our customers value most.



## FINANCIAL REVIEW

The Cathay Pacific Group reported an attributable profit of HK\$1,691 million for 2019. This compares with a HK\$2,345 million profit for 2018. The earnings per share was HK43.0 cents in 2019 compared to an earnings per share of HK59.6 cents in 2018. The Cathay Pacific Group reported an attributable profit of HK\$344 million in the second half of 2019, compared to an attributable profit of HK\$1,347 million in the first half of 2019 and an attributable profit of HK\$2,608 million in the second half of 2018. Cathay Pacific and Cathay Dragon reported an attributable loss of HK\$434 million in the second half of 2019, compared to an attributable profit of HK\$675 million in the first half of 2019 and an attributable profit of HK\$1,253 million in the second half of 2018.

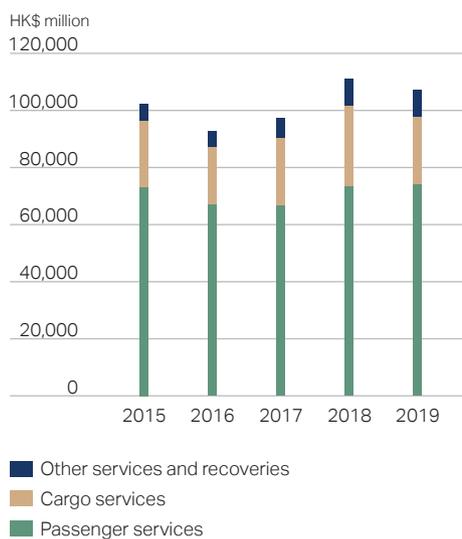
### REVENUE

|                               | Group         |               |        | Cathay Pacific and Cathay Dragon |               |        |
|-------------------------------|---------------|---------------|--------|----------------------------------|---------------|--------|
|                               | 2019<br>HK\$M | 2018<br>HK\$M | Change | 2019<br>HK\$M                    | 2018<br>HK\$M | Change |
| Passenger services            | 73,985        | 73,119        | +1.2%  | 72,168                           | 73,119        | -1.3%  |
| Cargo services                | 23,810        | 28,316        | -15.9% | 21,154                           | 24,663        | -14.2% |
| Other services and recoveries | 9,178         | 9,625         | -4.6%  | 8,284                            | 8,730         | -5.1%  |
| Total revenue                 | 106,973       | 111,060       | -3.7%  | 101,606                          | 106,512       | -4.6%  |

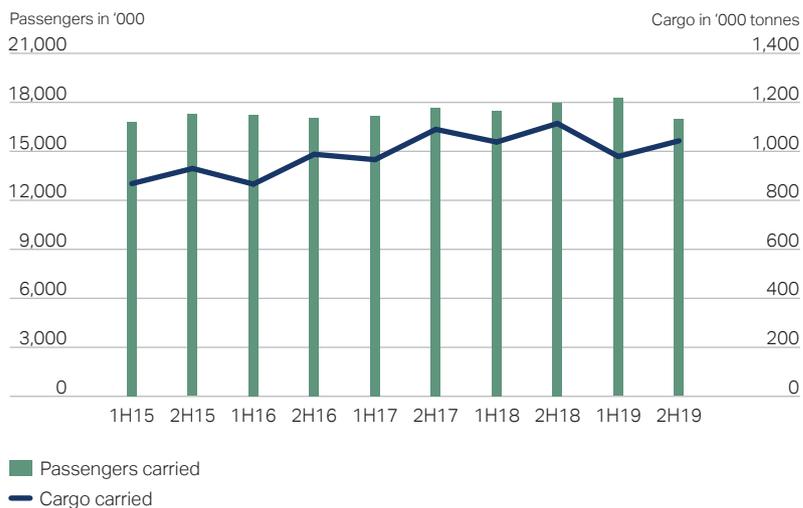
### CATHAY PACIFIC AND CATHAY DRAGON

- Passenger revenue decreased by 1.3% to HK\$72,168 million. The number of revenue passengers carried decreased by 0.7% to 35.2 million. Revenue passenger kilometres increased by 2.9%.
- The passenger load factor decreased by 1.8 percentage points to 82.3%. Available seat kilometres increased by 5.1%.
- Passenger yield decreased by 3.9% to HK53.6 cents.
- First and business class revenues decreased by 3.4% and the load factor decreased from 76.1% to 75.7%.
- Premium economy and economy class revenues decreased by 0.2% and the load factor decreased from 85.5% to 83.4%.
- Cargo revenue decreased by 14.2% to HK\$21,154 million. There was a 0.3% decrease in capacity.
- The cargo load factor decreased by 4.4 percentage points. Cargo yield decreased by 7.9% to HK\$1.87.

## Revenue



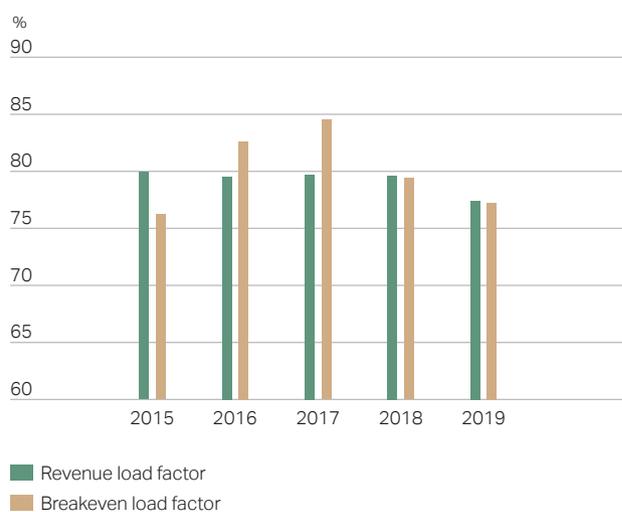
## Cathay Pacific and Cathay Dragon: passengers and cargo carried



- The overall revenue load factor decreased by 2.2 percentage points to 77.4%. The breakeven load factor was 77.2%.
- 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 | 874   |
| + 1 percentage point in cargo load factor     | 328   |
| + HK¢1 in passenger yield                     | 1,344 |
| + HK¢1 in cargo yield                         | 113   |

## Cathay Pacific and Cathay Dragon: revenue and breakeven load factor



## FINANCIAL REVIEW

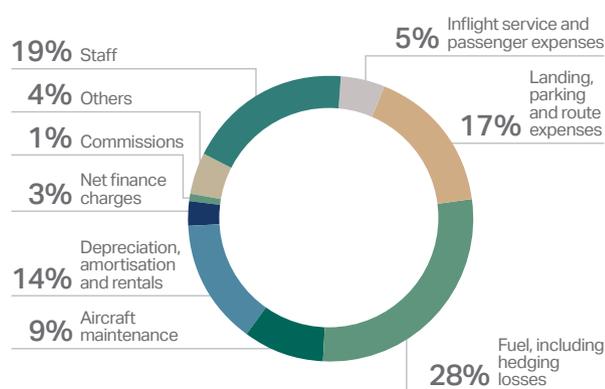
## OPERATING EXPENSES

|   | Group          |                |              | Cathay Pacific and Cathay Dragon |                |              |
|---|----------------|----------------|--------------|----------------------------------|----------------|--------------|
|   | 2019<br>HK\$M  | 2018<br>HK\$M  | Change       | 2019<br>HK\$M                    | 2018<br>HK\$M  | Change       |
| Staff   | 20,125         | 20,211         | -0.4%        | 17,604                           | 17,987         | -2.1%        |
| Inflight service and passenger expenses       | 5,306          | 5,292          | +0.3%        | 5,284                            | 5,292          | -0.2%        |
| Landing, parking and route expenses           | 17,758         | 17,486         | +1.6%        | 16,900                           | 17,115         | -1.3%        |
| Fuel, including hedging losses                | 29,812         | 33,869         | -12.0%       | 28,778                           | 33,232         | -13.4%       |
| Aircraft maintenance                          | 9,858          | 9,401          | +4.9%        | 9,231                            | 8,965          | +3.0%        |
| Aircraft depreciation and rentals*            | 12,022         | 12,743         | -5.7%        | 11,640                           | 12,414         | -6.2%        |
| Other depreciation, amortisation and rentals* | 2,991          | 2,851          | +4.9%        | 2,132                            | 2,091          | +2.0%        |
| Commissions                                   | 927            | 862            | +7.5%        | 920                              | 862            | +6.7%        |
| Others  | 4,847          | 4,750          | +2.0%        | 6,280                            | 6,164          | +1.9%        |
| <b>Operating expenses</b>                     | <b>103,646</b> | <b>107,465</b> | <b>-3.6%</b> | <b>98,769</b>                    | <b>104,122</b> | <b>-5.1%</b> |
| Net finance charges*                          | 2,939          | 2,114          | +39.0%       | 2,446                            | 1,853          | +32.0%       |
| <b>Total operating expenses</b>               | <b>106,585</b> | <b>109,579</b> | <b>-2.7%</b> | <b>101,215</b>                   | <b>105,975</b> | <b>-4.5%</b> |

\* The adoption of HKFRS 16 has resulted in increased depreciation and finance charges, offset by a reduction in lease charges.

- The Group's total operating expenses decreased by 2.7% (with the combined Cathay Pacific and Cathay Dragon operating expenses decreasing by 4.5%).
- The cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon decreased from HK\$3.27 to HK\$3.06.
- The cost per ATK (without fuel) of Cathay Pacific and Cathay Dragon decreased from HK\$2.25 to HK\$2.19.
- The underlying cost per ATK (without fuel), which excludes exceptional items, non-recurring item and adjusts for the effect of foreign currency movements and the adoption of HKFRS 16, decreased from HK\$2.24 to HK\$2.22, a decrease of 0.9%.

## Group total operating expenses



## Group fuel price and consumption



## OPERATING RESULTS ANALYSIS

|   | 1st half<br>2019<br>HK\$M | 2nd half<br>2019<br>HK\$M | Full year<br>2019<br>HK\$M | 1st half<br>2018<br>HK\$M | 2nd half<br>2018<br>HK\$M | Full year<br>2018<br>HK\$M |
|---|---------------------------|---------------------------|----------------------------|---------------------------|---------------------------|----------------------------|
| <b>Cathay Pacific and Cathay Dragon's profit/(loss) before exceptional items, non-recurring item and taxation</b> | 966                       | (455)                     | 511                        | (844)                     | 1,539                     | 695                        |
| Exceptional items*  | (59)                      | (61)                      | (120)                      | 101                       | (259)                     | (158)                      |
| Non-recurring item**  | –                         | 114                       | 114                        | –                         | –                         | –                          |
| Taxation  | (232)                     | (32)                      | (264)                      | (126)                     | (27)                      | (153)                      |
| <b>Cathay Pacific and Cathay Dragon's profit/(loss) after exceptional items, non-recurring item and taxation</b>  | 675                       | (434)                     | 241                        | (869)                     | 1,253                     | 384                        |
| Share of profits from subsidiaries and associates   | 672                       | 778                       | 1,450                      | 606                       | 1,355                     | 1,961                      |
| <b>Profit/(loss) attributable to the shareholders of Cathay Pacific</b>   | 1,347                     | 344                       | 1,691                      | (263)                     | 2,608                     | 2,345                      |

\* Exceptional items in 2019 included 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 (2018: a HK\$101 million gain on the disposal of CO<sub>2</sub> emissions credits, redundancy costs of HK\$201 million incurred in connection with the reorganisation of our outports and data security costs of HK\$58 million).

\*\* Non-recurring item in 2019 included a HK\$114 million gain on deemed partial disposal of Air China Cargo.

The movement in Cathay Pacific and Cathay Dragon's profit before exceptional items, non-recurring item and taxation (isolating the effect of the adoption of HKFRS 16 and foreign currency movements) can be analysed as follows:

|  | Reported<br>HK\$M | HKFRS 16<br>adoption<br>HK\$M | Currency<br>movement<br>HK\$M | Adjusted<br>HK\$M | ATK unit *<br>% change | Note |
|--|-------------------|-------------------------------|-------------------------------|-------------------|------------------------|------|
| <b>2018 Cathay Pacific and Cathay Dragon's profit before tax</b> | <b>695</b>        |                               |                               | <b>695</b>        |                        |      |
| <b>Changes:</b>  |                   |                               |                               |                   |                        |      |
| – Passenger and Cargo revenue                                    | (4,460)           |                               | 1,213                         | (3,247)           | -5.3%                  | 1    |
| – Other services and recoveries                                  | (446)             |                               | 28                            | (418)             | -6.8%                  | 2    |
| – Staff  | 182               | (31)                          | (108)                         | 43                | -2.3%                  | 3    |
| – Inflight service and passenger expenses                        | 8                 |                               | (51)                          | (43)              | -1.3%                  | 4    |
| – Landing, parking and route expenses                            | 215               | (81)                          | (261)                         | (127)             | -1.4%                  | 5    |
| – Fuel, including hedging losses                                 | 4,454             |                               | (8)                           | 4,446             | -15.2%                 | 6    |
| – Aircraft maintenance   | (266)             | (95)                          | (9)                           | (370)             | +2.0%                  | 7    |
| – Owning the assets**  | 140               | 182                           | (14)                          | 308               | -3.9%                  | 8    |
| – Other items (including commissions)                            | (11)              | (85)                          | (476)                         | (572)             | +5.8%                  | 9    |
| <b>2019 Cathay Pacific and Cathay Dragon's profit before tax</b> | <b>511</b>        | (110)                         | 314                           | <b>715</b>        |                        |      |

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

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

Notes:

- As per Review of Operations section for passenger and cargo services.
- Lower cargo ancillary contribution from Atlas operations and lower aircraft lease income and related recoveries from Air Hong Kong. Lower inflight sales recoveries; offset by a 17% increase in Asia Miles revenues.
- Reduction in unit staff costs following the reorganisation of our outports and capped discretionary bonuses for 2019.
- Lower inflight cost of sales in line with reduction in inflight sales recoveries.
- Reduction in cargo handling costs resulting from decrease in cargo activities.
- 10% fall in the average into-plane fuel price and a decrease in fuel hedging losses.
- Increase in engine overhaul and component overhaul costs, partially offset by lower lease return and stock provisions.
- Decreased aircraft leasing costs on the cessation of the Atlas contract.
- Increased marketing costs associated with 'Move Beyond' and increased activity levels in Asia Miles.

## FINANCIAL REVIEW

### FUEL EXPENDITURE AND HEDGING

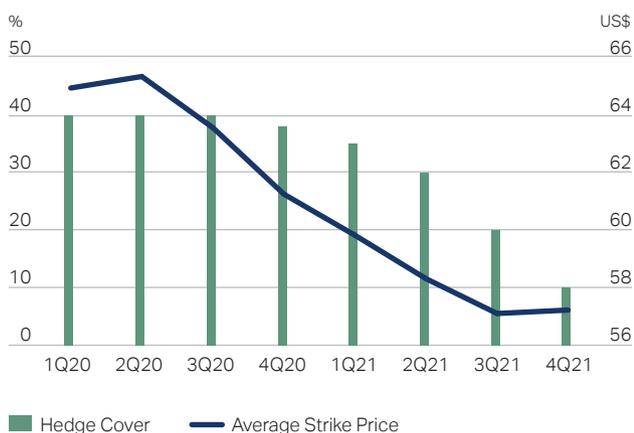
A breakdown of the Group's fuel cost is shown below:

|                     | 2019<br>HK\$M | 2018<br>HK\$M |
|---------------------|---------------|---------------|
| Gross fuel cost     | 29,711        | 32,424        |
| Fuel hedging losses | 101           | 1,445         |
| Fuel cost           | 29,812        | 33,869        |

Fuel consumption in 2019 was 46.6 million barrels (2018: 45.8 million barrels), an increase of 1.7% compared with an increase in capacity of 2.0%.

- The Group's fuel hedging cover at 31st December 2019 is set out in the chart below.

#### Fuel hedging cover



- The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. The Group uses fuel derivatives which are economically equivalent to forward contracts to achieve its desired hedging position. The chart above indicates the estimated percentage of projected consumption by year covered by hedging transactions at various Brent strike prices. The projected consumption in 1Q20 and 2Q20 is currently being impacted by the capacity reductions associated with COVID-19; as such the percentage covered during this period will increase.
- The Group does not speculate on oil prices but uses hedging to manage the risk of changes in oil prices and therefore its fuel costs. Hedging is not risk free.

### TAXATION

- The tax charge decreased by HK\$12 million to HK\$454 million, principally due to the reduced year on year result.

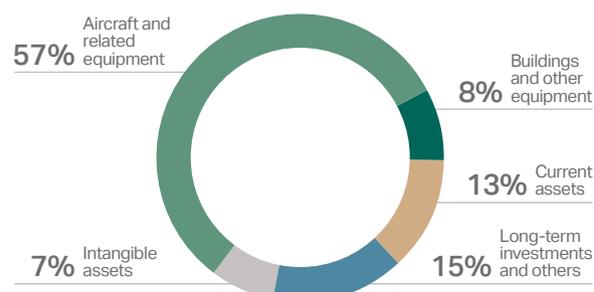
### DIVIDENDS

- Dividends paid for the year were HK\$708 million. No second interim dividend is proposed.
- The dividend per share decreased to HK\$0.18 for 2019 (2018: HK\$0.30).

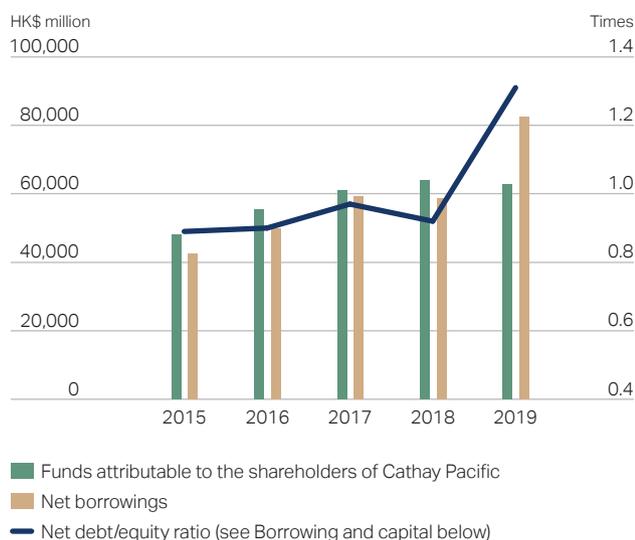
### ASSETS

- Total assets at 31st December 2019 were HK\$214,516 million.
- As a result of the adoption of HKFRS 16 (which changed the required accounting for operating leases to recognise right-of-use assets), right-of-use assets of HK\$17,350 million were brought onto the consolidated statement of financial position at 1st January 2019.
- During the year, additions to property, plant and equipment were HK\$13,270 million, comprising HK\$12,381 million in respect of aircraft and related equipment, HK\$589 million in respect of land and buildings and HK\$300 million in respect of other equipment.

#### Total assets



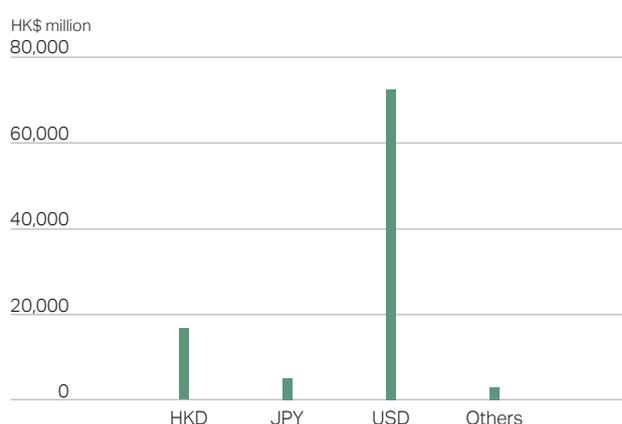
## Net debt and equity



## BORROWINGS AND CAPITAL

- Borrowings (which reflect the adoption of HKFRS 16) increased by 31.7% to HK\$97,260 million. These are mainly denominated in United States dollars, Hong Kong dollars and Japanese yen, and are fully repayable by 2033, with 52.8% currently at fixed rates of interest after taking into account derivative transactions. HKFRS 16 did not make a major change to the currency profile of borrowings. Excluding lease liabilities previously classified as operating leases, borrowings increased by 4.6% to HK\$77,293 million, which are fully repayable by 2031, with 44.2% at fixed rates of interest.
- Available unrestricted liquidity at 31st December 2019 totalled HK\$20,011 million, comprising liquid funds of HK\$14,864 million (79.9% of which are denominated in United States dollars) and committed undrawn facilities of HK\$5,289 million, less pledged funds of HK\$142 million.
- Net borrowings (reflecting the adoption of HKFRS 16 and after taking liquid funds and bank overdrafts into account) increased by 40.7% to HK\$82,396 million. Disregarding the effect of adopting HKFRS 16, net borrowings increased by 6.6% to HK\$62,429 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 1.8% to HK\$62,773 million. This was due to retained net profits and other comprehensive income,

## Borrowings in key currencies

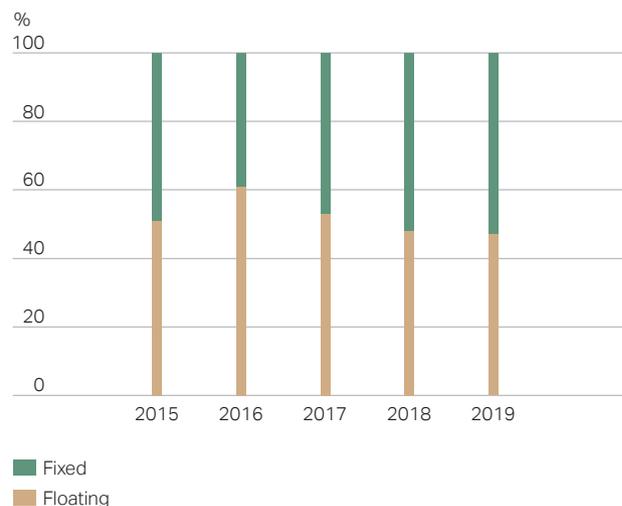


Others include EUR and SGD.

less the dividend distribution, being more than offset by the impact to opening reserves on the initial application of HKFRS 16.

- Disregarding the effect of adopting HKFRS 16, the net debt/equity ratio increased from 0.92 times to 0.96 times (against borrowing covenants of 2.0). Taking into account the effect of adopting HKFRS 16, the net debt/equity ratio was 1.31 and 1.25 times at 31st December 2019 and 1st January 2019 respectively.

## Interest rate profile: borrowings (after derivatives)





# HIGH PERFORMANCE CULTURE

Our exceptionally well-trained and service-orientated people are equipped with the knowledge and skills to enrich the travel experience of customers at every stage of their journey with us.

## SUSTAINABLE DEVELOPMENT REVIEW

### SUSTAINABLE DEVELOPMENT

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

We operate an environmental management system which is based on ISO14001:2015 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 which they give and are committed to providing them with the best possible working and career environment. This enables us to attract, develop and retain the best people.

Our sustainable development report for 2019 will be published in June 2020. It will be available at <https://sustainability.cathaypacific.com/past-reports/reports-download/>

### PERFORMANCE UPDATES – CATHAY PACIFIC AND CATHAY DRAGON

|  |  | 2019          | 2018   | Change         |
|--|--|---------------|--------|----------------|
| <b>Environment</b>                     |  |               |        |                |
| GHG emissions                          | <i>Million tonnes of CO<sub>2</sub>e</i> | <b>18.0</b>   | 18.0   | –              |
| GHG emissions per ATK                  | <i>Grammes of CO<sub>2</sub>e</i>        | <b>545</b>    | 556    | <b>-2.0%</b>   |
| Electricity consumption                | <i>MWh</i>                               | <b>32,900</b> | 37,762 | <b>-12.9%</b>  |
| Paper consumption (office)             | <i>Tonnes</i>                            | <b>67</b>     | 80     | <b>-16.3%</b>  |
| Paper recycled (office and inflight)   | <i>Tonnes</i>                            | <b>1,480</b>  | 1,528  | <b>-3.1%</b>   |
| Metal recycled (office and inflight)   | <i>Kg</i>                                | <b>39,209</b> | 37,290 | <b>+5.1%</b>   |
| Plastic recycled (office and inflight) | <i>Kg</i>                                | <b>43,108</b> | 39,624 | <b>+8.8%</b>   |
| <b>People</b>                          |  |               |        |                |
| Total workforce                        | <i>Number</i>                            | <b>27,342</b> | 26,623 | <b>+2.7%</b>   |
| <b>By location</b>                     |  |               |        |                |
| Hong Kong                              | <i>%</i>                                 | <b>78.1</b>   | 76.3   | <b>+1.8%pt</b> |
| Outport                                | <i>%</i>                                 | <b>21.9</b>   | 23.7   | <b>-1.8%pt</b> |
| <b>By employment type</b>              |  |               |        |                |
| Flight crew                            | <i>%</i>                                 | <b>15.0</b>   | 14.9   | <b>+0.1%pt</b> |
| Cabin crew                             | <i>%</i>                                 | <b>48.4</b>   | 47.8   | <b>+0.6%pt</b> |
| Ground staff                           | <i>%</i>                                 | <b>36.6</b>   | 37.3   | <b>-0.7%pt</b> |
| <b>By gender</b>                       |  |               |        |                |
| Female                                 | <i>%</i>                                 | <b>61.1</b>   | 59.7   | <b>+1.4%pt</b> |
| Male                                   | <i>%</i>                                 | <b>38.9</b>   | 40.3   | <b>-1.4%pt</b> |

Full indicator tables will be provided in Cathay Pacific's Sustainable Development Report at [https://www.cathaypacific.com/cx/en\\_HK/about-us/environment/our-publications.html](https://www.cathaypacific.com/cx/en_HK/about-us/environment/our-publications.html)

## SUSTAINABLE DEVELOPMENT REVIEW

### AWARDS AND RECOGNITIONS IN 2019

- Cathay Pacific continues to be a constituent of the FTSE4Good Index for 11 years and the Hang Seng Corporate Sustainability Index since its establishment in 2011. In 2019, we responded to the Carbon Disclosure Project climate change questionnaire and received a B rating.
- In 2019, Cathay Pacific was awarded the Best in Environmental, Social and Governance (ESG) and Best in Reporting in the large market capitalisation category respectively at the BDO ESG Awards.

### 2019 HIGHLIGHTS ENVIRONMENT

- Cathay Pacific participates in an International Civil Aviation Organization task force which leads the aviation industry's work in developing proposals for a fair, equitable and effective global agreement on emissions.
- Cathay Pacific engages with regulators and groups (the IATA 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 aviation policy with respect to climate change. 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 2019 emissions data from intra-EU flights were reported on by an external auditor and submitted to the UK Environment Agency in March 2020.
- In 2019, all our Airbus A350-1000 aircraft were flown on their delivery flights from Toulouse using fuel containing biofuel.
- As of November 2019, Cathay Pacific and Cathay Dragon flights have gone completely paperless with the launch of the Flight Folder project, reducing both fuel use and waste of paper.
- We have introduced two new projects as part of the Fly Greener voluntary carbon offset programme. In 2019, we offset 32,321 tonnes of CO<sub>2</sub>. Since the programme was launched in 2007, over 197,000 tonnes of CO<sub>2</sub> have been offset.
- Since Cathay Pacific announced its single-use plastic strategy in 2018, over 32 million pieces of single-use plastic were removed from our operations annually. In 2019, Cathay Pacific also announced its three-year target to reduce its single-use plastic footprint by half by 2022.
- Cathay Pacific Catering Services (H.K.) Limited (CPCS) 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 the CPCS kitchens. More than 400 tonnes of surplus food were donated in 2019.
- In March 2019, 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

- The 8th “I Can Fly” programme took place in 2019. 180 secondary school students and 60 volunteers took part in this six-month programme, which offers aviation knowledge, visits to partner organisations, and hands-on projects to address social issues. 30 outstanding students were taken on an overseas trip to the Flight Training school in Adelaide to meet with Cathay Pacific’s cadet pilots.
- In 2019, Cathay Pacific launched the Cathay ChangeMakers programme, which aims to recognise and pay tribute to leaders in their respective fields who contribute positively towards a better future. Besides flights sponsorship, Cathay Pacific also made use of its community engagement programme, and employee and member communications to raise awareness of such worthwhile causes. The three 2019 ChangeMakers were Ms Gigi Tung, founder of food rescue NGO Food Angel; Mr Craig Leeson, Director of documentary ‘A Plastic Ocean’; and Mr Jeffrey Andrews, a social worker who helps ethnic minorities in Hong Kong adapt to cultural differences and integrate into the local community.
- Cathay Pacific supports UNICEF through its “Change for Good” inflight fundraising programme. Our passengers contributed HK\$9.5 million in 2018 to help improve the lives of vulnerable children worldwide. Since its introduction in 1991, nearly HK\$193 million has been raised through the programme.
- In June 2019, a group of Cathay Pacific staff went to Guizhou province in Mainland China to see how “Change for Good” donations are put to good use within the local community.
- A percentage of the “Change for Good” donations are passed to the Cathay Pacific Wheelchair Bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases.

- We organised tours of our headquarters at Hong Kong International Airport for around 9,340 visitors in 2019.
- The Cathay Aviation Certificate programme is jointly organised with the Hong Kong Air Cadet Corps and the Scout Association of Hong Kong. Participants gain first-hand knowledge of the Hong Kong aviation industry and are mentored by Cathay Dragon pilots. In 2019, Cathay Pacific and Cathay Dragon pilots mentored 40 participants over nine months. To date, over 360 participants have graduated from the programme. Over 55% of the graduates have started aviation-related careers.
- Cathay Pacific has received the Caring Company status from the Hong Kong Council of Social Service every year since 2003 in recognition of its good corporate citizenship.
- Cathay Pacific conducted a number of employee briefings on the topic of Modern Slavery in 2019. The Group also published its Modern Slavery & Human Trafficking Policy this year.

## COMMITMENT TO STAFF

- At 31st December 2019, the Cathay Pacific Group employed more than 34,200 people worldwide. Around 28,200 of these people are based in Hong Kong. Cathay Pacific and Cathay Dragon employed more than 27,300 permanent staff worldwide. Around 78% of these people are based in Hong Kong.
- Cathay Pacific and Cathay Dragon recruited more than 3,000 staff in 2019, including 1,500 cabin crew and 350 pilots.
- In 2019, more than 100 cadets graduated from the Cathay Pacific cadet pilot programme.
- We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.

## DIRECTORS AND OFFICERS

### EXECUTIVE DIRECTORS

**HEALY, Patrick<sup>#</sup>**, aged 54, 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 Mainland China.

**HUGHES, Gregory Thomas Forrest<sup>#</sup>**, aged 58, 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<sup>#</sup>**, aged 47, 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 and a Director of AHK Air Hong Kong Limited. He joined the Swire group in 1996 and has worked with the Company in Hong Kong, Japan and Sri Lanka.

**MURRAY, Martin James<sup>#</sup>**, aged 53, has been Chief Financial Officer (formerly Finance Director) and a Director of the Company since November 2011. He is also a Director of Hong Kong Dragon Airlines Limited and AHK Air Hong Kong Limited. He was previously Deputy Finance Director of Swire Pacific Limited. He joined the Swire group in 1995 and has worked with the group in Hong Kong, the United States, Singapore and Australia.

**TANG, Kin Wing Augustus<sup>#</sup>**, aged 61, 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

**CAI, Jianjiang**, aged 56, has been a Director of the Company since November 2009 and Deputy Chairman since March 2014. He is Chairman of China National Aviation Holding Corporation Limited and Air China Limited.

**CHU, Kwok Leung Ivan<sup>#</sup>**, aged 58, has been a Director of the Company since March 2011. He served as Chief Operating Officer from March 2011 to March 2014 and Chief Executive from March 2014 to April 2017. 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 has resigned from these positions with effect from 14th April 2020. He is a member of the Chinese People's Political Consultative Conference Shanghai Committee. He joined the Swire group in 1984 and has worked with the group in Hong Kong, Mainland China, Taiwan, Thailand and Australia.

**LOW, Mei Shuen Michelle<sup>#\*\*@</sup>**, aged 59, 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.

**SONG, Zhiyong**, aged 54, has been a Director of the Company since March 2014. He is Vice Chairman and President of Air China Limited.

**SWIRE, Merlin Bingham<sup>#</sup>**, aged 46, 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, Mainland China and London. He is brother to Samuel Swire, a Non-Executive Director of the Company.

**SWIRE, Samuel Compton<sup>#\*</sup>**, aged 39, 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, Mainland China, Sri Lanka and London. He is brother to Merlin Swire, a Non-Executive Director of the Company.

**XIAO, Feng<sup>\*@</sup>**, aged 51, has been a Director of the Company since January 2017. He is Chief Financial Officer of Air China Limited.

**ZHANG, Zhuo Ping<sup>#</sup>**, aged 48, was appointed a Director of the Company with effect from 14th April 2020. He was also appointed a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited and Chairman of John Swire & Sons (China) Limited with effect from the same date. He spent his early career in investment banking. He was with the Swire group from 2002 to 2011, spending much of his time in Mainland China, 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 58, has been a Director of the Company since June 2011. He is Vice President of Air China Limited.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**CHAN, Bernard Charnwut<sup>+</sup>** (formerly known as CHAN, Chi Sze Bernard), aged 55, has been a Director of the Company since December 2018. He is President and an Executive Director of Asia Financial Holdings Limited and 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<sup>\*@</sup>**, aged 63, has been a Director of the Company since May 2015. He is an Independent Non-Executive Director of AIA Group Limited, Grosvenor Asia Pacific Limited and BW Group Limited and Vice Chairman of BW LPG Limited. He was Chairman and Chief Executive Officer of KPMG, China and Hong Kong and Chairman of KPMG Asia Pacific from 2003 to 2009 and was Deputy Chairman of KPMG International from 2008 until his retirement from KPMG in September 2010.

**MILTON, Robert Aaron<sup>\*@</sup>**, aged 59, 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 the 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 the Chairman of United Continental Holdings, Inc., holding company of United Airlines, from April 2016 to April 2018.

**TUNG, Lieh Cheung Andrew<sup>+</sup>**, aged 55, has been a Director of the Company since May 2015. He is 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)<sup>#</sup>**, aged 48, 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.

<sup>#</sup> Employees of the John Swire & Sons Limited group

<sup>+</sup> Member of the Remuneration Committee

<sup>\*</sup> Member of the Audit Committee

<sup>@</sup> Member of the Board Risk Committee

## DIRECTORS' REPORT

We submit our report and the audited financial statements for the year ended 31st December 2019 which are on pages 69 to 137.

### 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 2019 and the financial position of the Group and the Company at that date are set out in the financial statements on pages 69 to 137. Details of the joint ventures and associates are provided under note 10 to the financial statements.

### DIVIDENDS

The first interim dividend of HK\$0.18 per share was paid on 3rd October 2019, representing a distribution of HK\$708 million. The Directors decided not to declare a second interim dividend for the year ended 31st December 2019.

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 13th May 2020, the register of members will be closed from 8th May 2020 to 13th May 2020, 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, 7th May 2020.

### 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 72 and in note 22 to the financial statements, respectively.

## ACCOUNTING POLICIES

The principal accounting policies are set out on pages 123 to 137.

## 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\$7 million in the form of discounts on airline travel.

## PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment are shown in note 8 to the financial statements. Details of aircraft acquisitions are set out on page 19.

## BANK AND OTHER BORROWINGS

The net bank loans and other borrowings, including lease liabilities, of the Group are shown in note 12 to the financial statements.

## SHARE CAPITAL

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

At 31st December 2019, 3,933,844,572 shares were in issue (31st December 2018: 3,933,844,572 shares). There has been no movement in share capital during the year.

## CAPITAL COMMITMENTS AND CONTINGENCIES

The details of capital commitments and contingent liabilities of the Group at 31st December 2019 are set out in note 30 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, Martin Murray, Merlin Swire, Samuel Swire and Augustus Tang are, and Zhang Zhuo Ping will be, interested in the JSSHK Services Agreement (as defined below). Merlin Swire and Samuel Swire are also so interested as shareholders, directors and employees of the Swire group. Rupert Hogg and Paul Loo were so interested as directors and employees of the Swire group until their resignation with effect from 19th August 2019. John Slosar was so interested as a director and an employee of the Swire group until his resignation with effect from the conclusion of the Company's board meeting held on 6th November 2019. Ivan Chu is 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 2019 are set out below and also given in note 29 to the financial statements.

## DIRECTORS' REPORT

### SIGNIFICANT CONTRACTS

Contracts between the Group and Hong Kong Aircraft Engineering Company Limited ("HAECO") and its subsidiary, Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO"), for the maintenance and overhaul of aircraft and related equipment accounted for approximately 3.8% of the Group's operating expenses in 2019. 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.

### DISCLOSEABLE TRANSACTION

The Company, Hong Kong Express Holding Company Limited (as seller) and HNA Aviation Group Co., Ltd. (as seller's guarantor) entered into a share purchase agreement on 27th March 2019 for the Company to purchase and the seller to sell a 100% equity interest in Hong Kong Express Airways Limited. This transaction constituted a discloseable transaction for the Company under the Listing Rules and was completed on 19th July 2019, in respect of which announcements dated 27th March 2019 and 19th July 2019 were published. The consideration was HK\$4,765 million, comprising (i) a cash consideration of HK\$1,802 million payable in cash; and (ii) a non-cash consideration of HK\$2,963 million settled through the issue and novation of promissory loan notes.

### CONTINUING CONNECTED TRANSACTIONS

During the year ended 31st December 2019, 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 2019, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK\$25 million and expenses of HK\$204 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 2019 and under the HAECO Framework Agreement, the amounts payable by the Group to the HAECO group totalled HK\$3,947 million; and the amounts payable by the HAECO group to the Group totalled HK\$34 million.

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

The current term of the Air China Framework Agreement is for three years ending on 31st December 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 2019 and under the Air China Framework Agreement, the amounts payable by the Group to the Air China group totalled HK\$288 million; and the amounts payable by the Air China group to the Group totalled HK\$377 million.

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

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

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

## DIRECTORS' REPORT

- (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 35% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 2% of sales were made to the Group's largest customer and 12% 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

Robert Milton was appointed as a Director with effect from the conclusion of the Company's 2019 Annual General Meeting held on 15th May 2019. Ronald Lam and Augustus Tang were appointed as Directors with effect from 19th August 2019. Patrick Healy was appointed as a Director and elected as Chairman with effect from the conclusion of the Company's board meeting held on 6th November 2019. Zhang Zhuo Ping has been appointed as a Director with effect from 14th April 2020. 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. Irene Lee retired as a Director at the conclusion of the Company's 2019 Annual General Meeting held on 15th May 2019. Rupert Hogg and Paul Loo resigned as Directors with effect from 19th August 2019. John Slosar retired as Chairman and a Director with effect from the conclusion of the Company's board meeting held on 6th November 2019. Ivan Chu has resigned as a Director with effect from 14th April 2020.

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, Song Zhiyong, Merlin Swire and Xiao Feng retire this year and, being eligible, offer themselves for re-election. Patrick Healy, Ronald Lam, Robert Milton, Augustus Tang and Zhang Zhuo Ping, 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.

## DIRECTORS' INTERESTS

At 31st December 2019, 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 (%) |
|---------------------------------------|----------|---------------|---------------------------------|
| <b>Cathay Pacific Airways Limited</b> |          |               |                                 |
| Michelle Low                          | Personal | 1,000         | 0.00003                         |
| <b>Air China Limited</b>              |          |               |                                 |
| Michelle Low                          | Personal | 40,000        | 0.00028                         |

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, John Slosar, 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 2019 or during the period from 1st January 2020 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 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 2019 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

## DIRECTORS' REPORT

| Long position  | No. of shares | Percentage of voting shares (%) | Type of interest (Note)   |
|--|---------------|---------------------------------|---------------------------|
| 1. Air China Limited                                   | 2,949,997,987 | 74.99                           | Attributable interest (a) |
| 2. China National Aviation Holding Corporation Limited | 2,949,997,987 | 74.99                           | Attributable interest (b) |
| 3. Swire Pacific Limited                               | 2,949,997,987 | 74.99                           | Attributable interest (a) |
| 4. John Swire & Sons Limited                           | 2,949,997,987 | 74.99                           | Attributable interest (c) |
| 5. Qatar Airways Group Q.C.S.C.                        | 392,991,000   | 9.99                            | Beneficial interest (d)   |

Note: At 31st December 2019:

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

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

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

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

(c) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group being interested in 55.20% 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 392,991,000 shares of the Company as beneficial owner.

## PUBLIC FLOAT

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

## AUDITORS

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

By order of the Board

**Patrick Healy**

Chairman

Hong Kong, 11th March 2020

# 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](http://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.

## CORPORATE GOVERNANCE REPORT

### THE BOARD OF DIRECTORS

#### ROLE OF THE BOARD

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

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

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

To assist it in fulfilling its duties, the Board has established the Board Safety Review Committee, the Executive Committee, the Finance Committee, the Remuneration Committee, 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, Ivan Chu, Gregory Hughes, Ronald Lam, Michelle Low, Martin Murray and Augustus Tang are and Zhang Zhuo Ping will be, 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.

## CORPORATE GOVERNANCE REPORT

On 11th March 2020, the Board, having reviewed the Board's composition, nominated Patrick Healy, Ronald Lam, Robert Milton, Song Zhiyong, Merlin Swire, Augustus Tang, Xiao Feng and Zhang Zhuo Ping for recommendation to shareholders for election/re-election at the 2020 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 Patrick Healy, Ronald Lam, Robert Milton, Song Zhiyong, Merlin Swire, Augustus Tang and Xiao Feng to the Board and their firm commitment to their roles. The Board is satisfied with the independence of Robert Milton having regard to the criteria laid down in the Listing Rules. The particulars of the Directors standing for election/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 (18%)       | 48-56 years (41%)                     | 57-65 years (41%)             |
| Gender                           | Male (94%)              | Female (6%)                           |                               |
| Ethnicity                        | American (6%)           | Australian (6%)                       | British (29%)   Chinese (59%) |
| Years of service as Director     | 1-5 years (65%)         | 6-10 years (29%)                      | over 10 years (6%)            |
| Skills, expertise and experience | company executive (76%) | accounting, banking and finance (24%) |                               |

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 2019 Board meetings were determined in 2018 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met six times in 2019. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 50. Average attendance at Board meetings was 96%. 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.

## CORPORATE GOVERNANCE REPORT

### Meetings attended by Members/Held

|   | Board | Audit Committee | Board Risk Committee | Remuneration Committee | Finance Committee | Board Safety Review Committee | 2019 Annual General Meeting |
|---|-------|-----------------|----------------------|------------------------|-------------------|-------------------------------|-----------------------------|
| <b>Executive Directors</b>                                |       |                 |                      |                        |                   |                               |                             |
| Patrick Healy – Chairman (appointed on 6th November 2019) | N/A   |                 |                      |                        |                   | N/A                           | N/A                         |
| John Slosar – Chairman (retired on 6th November 2019)     | 6/6   |                 |                      |                        |                   | 1/2                           | ✓                           |
| Rupert Hogg (resigned with effect from 19th August 2019)  | 4/5   |                 |                      |                        | 7/8               | 1/1                           | ✓                           |
| Gregory Hughes  | 6/6   |                 |                      |                        | 9/12              | 2/2                           | ✓                           |
| Ronald Lam (appointed on 19th August 2019)                | 1/1   |                 |                      |                        | 3/4               | 1/1                           | N/A                         |
| Paul Loo (resigned with effect from 19th August 2019)     | 4/5   |                 |                      |                        | 8/8               | 1/1                           | ✓                           |
| Martin Murray   | 6/6   |                 |                      |                        | 11/12             |                               | ✓                           |
| Augustus Tang (appointed on 19th August 2019)             | 1/1   |                 |                      |                        | 4/4               | 1/1                           | N/A                         |
| <b>Non-Executive Directors</b>                            |       |                 |                      |                        |                   |                               |                             |
| Cai Jianjiang   | 6/6   |                 |                      |                        |                   | 0/2                           | X                           |
| Ivan Chu  | 6/6   |                 |                      |                        |                   | 2/2                           | ✓                           |
| Michelle Low  | 6/6   | 3/3             | 1/2                  |                        | 7/12              | 2/2                           | ✓                           |
| Song Zhiyong  | 6/6   |                 |                      |                        |                   | 0/2                           | X                           |
| Merlin Swire  | 6/6   |                 |                      |                        |                   | 2/2                           | ✓                           |
| Samuel Swire  | 6/6   |                 |                      | 2/2                    |                   | 2/2                           | ✓                           |
| Xiao Feng   | 6/6   | 3/3             | 2/2                  |                        | 10/12             | 0/2                           | X                           |
| Zhao Xiaohang   | 6/6   |                 |                      |                        | 9/12              | 0/2                           | X                           |
| <b>Independent Non-Executive Directors</b>                |       |                 |                      |                        |                   |                               |                             |
| Bernard Chan  | 5/6   |                 |                      | 2/2                    |                   | 2/2                           | ✓                           |
| John Harrison   | 6/6   | 3/3             | 2/2                  |                        |                   | 2/2                           | ✓                           |
| Irene Lee (retired on 15th May 2019)                      | 2/2   | 1/1             |                      | 1/1                    |                   | 1/1                           | ✓                           |
| Robert Milton (appointed on 15th May 2019)                | 4/4   | 2/2             | 2/2                  |                        |                   | 0/1                           | N/A                         |
| Andrew Tung   | 5/6   | 2/3             |                      | 1/1                    |                   | 2/2                           | ✓                           |
| Average attendance  | 96%   | 93%             | 88%                  | 100%                   | 81%               | 69%                           | 76%                         |

## 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 2019 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.

## CORPORATE GOVERNANCE 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 Martin Murray) and five Non-Executive Directors (Cai Jianjiang, Michelle Low, Song Zhiyong, Xiao Feng and Zhao Xiaohang).

### 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 Martin Murray), three Non-Executive Directors (Michelle Low, Xiao Feng and Zhao Xiaohang), the Head of Financial Services (Christopher Buckley), the Head of Treasury (Susan Ng) and an independent representative from the financial community.

### 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. Andrew Tung succeeded Irene Lee as Chairman of the Remuneration Committee with effect from the conclusion of the Company's 2019 Annual General Meeting held on 15th May 2019. All the other members served for the whole of 2019.

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 27 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.

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 meeting in October 2019. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors, as disclosed in note 27 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  | 2019<br>HK\$ | 2020<br>HK\$ |
|--|--------------|--------------|
| Director's Fee                             | 575,000      | 575,000      |
| Fee for Audit<br>Committee Chairman        | 268,000      | 268,000      |
| Fee for Audit<br>Committee Member          | 186,000      | 186,000      |
| Fee for Board Risk<br>Committee Chairman   | 268,000      | 268,000      |
| Fee for Board Risk<br>Committee Member     | 186,000      | 186,000      |
| Fee for Remuneration<br>Committee Chairman | 83,000       | 83,000       |
| Fee for Remuneration<br>Committee Member   | 60,000       | 60,000       |

**BOARD RISK COMMITTEE** – see pages 54 to 57

**AUDIT COMMITTEE** – see pages 58 to 60

## 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.

## CORPORATE GOVERNANCE REPORT

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 – 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 – 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 (Michelle Low, John Harrison, 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. All the members served for the second half of 2019 (after establishment of the committee on 1st July 2019).

The Board Risk Committee met twice in 2019. 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 work of the Committee during 2019 included reviews of the following matters:

- the Group’s RMF
- the Group’s risk management policy and processes
- the Group’s data governance and cybersecurity risks
- the impact of the social and political situation in Hong Kong on the Group
- risk management issues relating to Hong Kong Express Airways Limited, which became a wholly owned subsidiary of the Company on 19th July 2019.

The Chief Risk Officer was appointed in April 2019 and each of the new committees have so far held two meetings.

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 on page 55.

## Risk Governance Overview



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

### 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 practiced 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.

## CORPORATE GOVERNANCE REPORT

### 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.

From 2019 the risk registers have been compiled through the medium of workshops conducted with senior managers. 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.

#### 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 2019

Focus in 2019 has been on establishing the new RMF and enhancing risk identification and dimensioning. Areas covered so far have included Data Governance and Cybersecurity, where ongoing actions related to building resilience across the Group have been reviewed and progress tracked. They have included strengthening of data consents, retention governance and data exposure risk as well as ongoing cyber security protections to meet industry best practice.

There has been much focus this year on risk related to the potential decreased attractiveness of Hong Kong as an international destination or transit point given ongoing events in the city, and the impact of these on the Group. A response to this under the temporary governance of a working group and steering committee chaired by the Chief Executive Officer was set up to coordinate related actions across the Group, with particular focus on the security and safety of our customers and our people, and on identifying emerging risks in relation to the situation which in this environment have significantly increased velocity and potential to compound. Response to the downturn in travel to Hong Kong, particularly from the region, has included network-wide promotion of connecting traffic to beyond destinations.

Workshops were also conducted to identify and score risks related to the acquisition and operation of HK Express, use of third parties, and organisation and culture, and to establish the necessary mitigation plans around these. More are planned on risks related to operational technologies and climate change, and risk related to the situation in Hong Kong as an aviation hub will continue to be monitored. In all cases action plans are agreed with appointed risk owners in the business, improvements tracked and risk scores amended accordingly.

### 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 between pages 58 and 60.

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.

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.

## CORPORATE GOVERNANCE REPORT

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 (Michelle Low, John Harrison, 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. With effect from the conclusion of the Company's 2019 Annual General Meeting held on 15th May 2019, John Harrison

succeeded Irene Lee as Chairman of the Audit Committee and Robert Milton was appointed as a member of the Audit Committee. All the other members served for the whole of 2019.

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 2019. 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 2019 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2018 annual and 2019 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with certain regulatory and statutory requirements
- the Group's internal control systems
- the approval of the 2020 annual Internal Audit programme and review of progress on the 2019 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 60
- the Company's compliance with the CG Code
- the Company's fuel hedging policy.

In 2020, the Committee has reviewed, and recommended to the Board for approval, the 2019 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 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

## CORPORATE GOVERNANCE REPORT

- 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 2019 the total remuneration paid to the external auditors was HK\$24 million, being HK\$16 million for audit, HK\$7 million for tax advice and HK\$1 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 (Martin Murray), Director Engineering (Neil Glenn), Director Customer (Simon Large), Director Flight Operations (Captain Chris Kempis), Director People (Tom Owen), Director Service Delivery (Algernon Yau), Director Commercial (Lavinia Lau) 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
- 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](mailto:ir@cathaypacific.com). The relevant contact details are set out in the section of this annual report headed Corporate and Shareholder Information.

## CORPORATE GOVERNANCE REPORT

### THE ANNUAL GENERAL MEETING

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 15th May 2019. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 50.

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 2018
- 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 2020 are set out in the section of this annual report headed Corporate and Shareholder Information.

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

# INDEPENDENT AUDITOR'S REPORT



*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 69 to 137, which comprise the consolidated statement of financial position as at 31st December 2019, 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 2019 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

### REVENUE RECOGNITION

Refer to accounting policy 15 and notes 1 and 19 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"> <li>• 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;</li> <li>• 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;</li> <li>• inspecting underlying documentation for journal entries which met specified risk-based criteria;</li> <li>• 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;</li> <li>• 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.</li> </ul> |

### HEDGE ACCOUNTING

Refer to accounting policy 10 and notes 11, 13, 16, 18, 22 and 31 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 HKFRSs is applied for a majority of these arrangements, and related contracts gave rise to derivative financial assets of HK\$595 million and derivative financial liabilities of HK\$917 million as at 31st December 2019.</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 hedging contracts, necessitating a sophisticated system to record and track each contract and determine the related valuations at each financial reporting date and because the valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and is subject to an inherent risk of error.</p> | <p>Our audit procedures to assess hedge accounting included the following:</p> <ul style="list-style-type: none"> <li>• assessing the design, implementation and operating effectiveness of management's key internal controls over derivative financial instruments and the related hedge accounting;</li> <li>• requesting written confirmations from contract counterparties for derivative financial instruments that existed at the reporting date on a sample basis;</li> <li>• inspecting management's hedge documentation and contracts, on a sample basis, for the purpose of considering whether the related accounting treatment was in accordance with the requirements of the prevailing accounting standards;</li> <li>• re-performing calculations of hedge effectiveness on a sample basis;</li> <li>• 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.</li> </ul> |

## ASSESSMENT OF PROVISIONS FOR TAXATION, LITIGATION AND CLAIMS

Refer to accounting policy 19 and notes 5, 18 and 30 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 30(d) to the consolidated financial statements.</p> <p>Provisions for taxation, litigation and claims represented management's best estimates of the amounts likely to be required to settle these matters. The amount recorded at 31st December 2019 totalled HK\$2,745 million, of which HK\$1,951 million was recorded as taxation in the consolidated statement of financial position, and the remaining HK\$794 million was included within the balance of other payables in note 18 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"> <li>engaging our internal tax specialists in Hong Kong and the relevant overseas jurisdictions to assess the Group's provisions for potential exposure to each material tax dispute by discussing with management to understand the dispute and reviewing correspondence with the relevant tax authorities to understand the relevant associated risks;</li> <li>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;</li> <li>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;</li> <li>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.</li> </ul> |

## ASSESSING THE CARRYING VALUE OF AIRCRAFT AND RELATED EQUIPMENT

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

| The Key Audit Matter  | How the matter was addressed in our audit  |
|---|--|
| <p>The carrying value of the Group's aircraft and related equipment as at 31st December 2019 was HK\$123,312 million and the related depreciation charge for the year ended 31st December 2019 was HK\$11,575 million.</p> <p>Estimated useful lives, residual values and the carrying value of aircraft and related equipment are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and, therefore, could have a material impact on any impairment charges or the depreciation charge for the year.</p> <p>We identified the assessment of the carrying value of aircraft and related equipment as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above, which may affect the carrying value of the Group's aircraft and related equipment, the depreciation charge and any impairment charges for the current and future years.</p> | <p>Our audit procedures to assess the carrying value of aircraft and related equipment included the following:</p> <ul style="list-style-type: none"> <li>assessing the estimated useful lives and residual values of aircraft and related equipment with reference to the Group's historical experience and future operating plans including future acquisitions and retirement of aircraft, policies adopted by other comparable airlines and our knowledge of the airline industry;</li> <li>challenging any changes to the estimated useful lives and residual values of aircraft by considering external information such as third party quotations, recent sales data for similar aircraft or actual sales agreements the Group entered into which might lead to an adjustment to the remaining useful lives or residual values;</li> <li>discussing indicators of possible impairment of aircraft and related equipment with management of the Group and, where such indicators were identified, assessing whether management had performed impairment testing in accordance with the requirements of the prevailing accounting standards;</li> <li>challenging the assumptions and critical judgements used by management in their impairment assessments by comparing management's past estimates and plans to the current year's estimates and plans taking into account recent developments in the airline industry and market conditions.</li> </ul> |

## INDEPENDENT AUDITOR'S REPORT

### ASSESSING AIRCRAFT MAINTENANCE PROVISIONS

Refer to accounting policy 6 and notes 13 and 18 to the consolidated financial statements

| The Key Audit Matter  | How the matter was addressed in our audit   |
|---|---|
| <p>As at 31st December 2019, the Group operated 69 aircraft held 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\$5,031 million as at 31st December 2019 and are included within other long-term payables and trade and other payables in the consolidated statement of financial position.</p> <p>We have identified assessing aircraft maintenance provisions as a key audit matter because of the inherent level of complex and subjective management judgements required in assessing the variable factors and assumptions in order to quantify the provision amounts.</p> | <p>Our audit procedures to assess aircraft maintenance provisions included the following:</p> <ul style="list-style-type: none"> <li>assessing the design, implementation and operating effectiveness of management's key internal controls over accounting for maintenance provisions for aircraft held under leases;</li> <li>evaluating the provisioning model, methodology and key assumptions adopted by management in estimating the provisions and any changes therein by reviewing the terms of the leases and comparing assumptions to contract terms and the Group's maintenance cost experience;</li> <li>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;</li> <li>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.</li> </ul> |

### ASSESSING POTENTIAL IMPAIRMENT OF GOODWILL ALLOCATED TO THE CASH-GENERATING UNIT ("CGU") OF HONG KONG EXPRESS AIRWAYS LIMITED ("HK EXPRESS")

Refer to accounting policy 2 and notes 9 and 26 to the consolidated financial statements

| The Key Audit Matter  | How the matter was addressed in our audit   |
|---|---|
| <p>The Group acquired HK Express on 19th July 2019. Goodwill amounting to HK\$3,988 million arose on the acquisition, of which HK\$3,616 million was allocated to the CGU of HK Express and HK\$372 million was allocated to the CGU of Cathay Pacific Airways Limited and Hong Kong Dragon Airlines Limited.</p> <p>Management performed an impairment assessment of goodwill allocated to the CGU of HK Express as at 31st December 2019 by comparing the carrying value of HK Express as a CGU with its value in use based on discounted cash flow forecasts.</p> <p>The preparation of discounted cash flow forecasts of HK Express involves estimating future cash flows, growth rates and discount rates which can be inherently uncertain given the recency of the transaction and HK Express' business model as a low cost carrier which is different from the other airlines operated by the Group.</p> <p>We identified the assessment of potential impairment of goodwill allocated to the CGU of HK Express as a key audit matter because the year-end assessment performed by management contains certain judgemental assumptions which could be subject to management bias.</p> | <p>Our audit procedures to assess the potential impairment of goodwill allocated to the CGU of HK Express included the following:</p> <ul style="list-style-type: none"> <li>assessing management's identification of the CGU and the allocation of assets to the CGU for the purpose of impairment assessment;</li> <li>engaging our internal valuation specialists to assess the methodology adopted by management in its impairment assessment of goodwill allocated to the CGU of HK Express with reference to the requirements of the prevailing accounting standards;</li> <li>evaluating the assumptions adopted in the preparation of the discounted cash flow forecast, including projected future growth rates for income and expenses and discount rate with reference to our understanding of the business, historical trends and available industry information and market data;</li> <li>comparing the budgeted results prepared at the time of the acquisition with the actual post-acquisition performance of HK Express to assess the reliability of the cash flow forecast prepared at the time of acquisition, and making enquiries of management as to the reasons for any significant variations identified;</li> <li>performing sensitivity analyses on the key assumptions, including projected profitability and the discount rate, adopted in the discounted cash flow forecast and assessing whether there were any indicators of management bias in the selection of these assumptions.</li> </ul> |

## 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 HKSAAs 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 HKSAAs, 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, related safeguards.

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

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

### **KPMG**

*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
11th March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31st December 2019

|   | Note | 2019<br>HK\$M    | 2018<br>HK\$M | 2019<br>US\$M   | 2018<br>US\$M |
|---|------|------------------|---------------|-----------------|---------------|
| <b>Revenue</b>  |      |                  |               |                 |               |
| Passenger services  |      | 73,985           | 73,119        | 9,485           | 9,374         |
| Cargo services  |      | 23,810           | 28,316        | 3,052           | 3,630         |
| Other services and recoveries   |      | 9,178            | 9,625         | 1,177           | 1,234         |
| <b>Total revenue</b>  |      | <b>106,973</b>   | 111,060       | <b>13,714</b>   | 14,238        |
| <b>Expenses</b>   |      |                  |               |                 |               |
| Staff   |      | (20,125)         | (20,211)      | (2,580)         | (2,591)       |
| Inflight service and passenger expenses   |      | (5,306)          | (5,292)       | (680)           | (678)         |
| Landing, parking and route expenses   |      | (17,758)         | (17,486)      | (2,277)         | (2,242)       |
| Fuel, including hedging losses  |      | (29,812)         | (33,869)      | (3,822)         | (4,342)       |
| Aircraft maintenance  |      | (9,858)          | (9,401)       | (1,264)         | (1,205)       |
| Aircraft depreciation and rentals   |      | (12,022)         | (12,743)      | (1,541)         | (1,634)       |
| Other depreciation, amortisation and rentals  |      | (2,991)          | (2,851)       | (384)           | (365)         |
| Commissions   |      | (927)            | (862)         | (119)           | (111)         |
| Others  |      | (4,847)          | (4,750)       | (621)           | (609)         |
| <b>Operating expenses</b>   |      | <b>(103,646)</b> | (107,465)     | <b>(13,288)</b> | (13,777)      |
| <b>Operating profit before non-recurring items</b>  |      | <b>3,327</b>     | 3,595         | <b>426</b>      | 461           |
| Gain on deemed partial disposal of an associate   | 2    | 114              | –             | 15              | –             |
| <b>Operating profit</b>   | 3    | <b>3,441</b>     | 3,595         | <b>441</b>      | 461           |
| Finance charges   |      | (3,276)          | (2,457)       | (420)           | (315)         |
| Finance income  |      | 337              | 343           | 43              | 44            |
| Net finance charges   | 4    | (2,939)          | (2,114)       | (377)           | (271)         |
| Share of profits of associates  |      | 1,643            | 1,762         | 211             | 226           |
| <b>Profit before taxation</b>   |      | <b>2,145</b>     | 3,243         | <b>275</b>      | 416           |
| Taxation  | 5    | (454)            | (466)         | (58)            | (60)          |
| <b>Profit for the year</b>  |      | <b>1,691</b>     | 2,777         | <b>217</b>      | 356           |
| Non-controlling interests   |      | –                | (432)         | –               | (55)          |
| <b>Profit attributable to the shareholders of Cathay Pacific</b>  |      | <b>1,691</b>     | 2,345         | <b>217</b>      | 301           |
| <b>Earnings per share (basic and diluted)</b>   | 6    | <b>43.0¢</b>     | 59.6¢         | <b>5.5¢</b>     | 7.6¢          |
| Profit for the year   |      | 1,691            | 2,777         | 217             | 356           |
| <b>Other comprehensive income</b>   |      |                  |               |                 |               |
| Items that may not be reclassified subsequently to profit or loss:  |      |                  |               |                 |               |
| Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling) |      | 33               | –             | 4               | –             |
| Defined benefit plans   |      | 1,061            | (270)         | 136             | (35)          |
| Items that may be reclassified subsequently to profit or loss:  |      |                  |               |                 |               |
| Cash flow hedges  |      | 551              | 1,586         | 71              | 203           |
| Share of other comprehensive income of associates   |      | (186)            | 628           | (24)            | 81            |
| Exchange differences on translation of foreign operations   |      | (472)            | (1,495)       | (61)            | (192)         |
| <b>Other comprehensive income for the year, net of taxation</b>   | 7    | <b>987</b>       | 449           | <b>126</b>      | 57            |
| <b>Total comprehensive income for the year</b>  |      | <b>2,678</b>     | 3,226         | <b>343</b>      | 413           |
| <b>Total comprehensive income attributable to</b>   |      |                  |               |                 |               |
| Shareholders of Cathay Pacific  |      | 2,678            | 2,794         | 343             | 358           |
| Non-controlling interests   |      | –                | 432           | –               | 55            |
|   |      | <b>2,678</b>     | 3,226         | <b>343</b>      | 413           |

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The notes on pages 73 to 122 and the principal accounting policies on pages 123 to 137 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31st December 2019

|  | Note | 2019<br>HK\$M   | 2018<br>HK\$M | 2019<br>US\$M   | 2018<br>US\$M |
|--|------|-----------------|---------------|-----------------|---------------|
| <b>ASSETS AND LIABILITIES</b>                            |      |                 |               |                 |               |
| <b>Non-current assets and liabilities</b>                |      |                 |               |                 |               |
| Property, plant and equipment                            | 8    | 140,114         | 117,124       | 17,963          | 15,016        |
| Intangible assets  | 9    | 15,151          | 11,174        | 1,942           | 1,432         |
| Investments in associates                                | 10   | 27,055          | 27,570        | 3,469           | 3,534         |
| Other long-term receivables and investments              | 11   | 3,823           | 4,015         | 490             | 515           |
| Deferred tax assets                                      | 15   | 1,089           | 793           | 140             | 102           |
|  |      | <b>187,232</b>  | 160,676       | <b>24,004</b>   | 20,599        |
| Long-term liabilities                                    | 12   | (76,508)        | (60,183)      | (9,809)         | (7,716)       |
| Other long-term payables                                 | 13   | (4,806)         | (4,649)       | (616)           | (596)         |
| Deferred tax liabilities                                 | 15   | (13,564)        | (13,178)      | (1,739)         | (1,689)       |
|  |      | <b>(94,878)</b> | (78,010)      | <b>(12,164)</b> | (10,001)      |
| <b>Net non-current assets</b>                            |      | <b>92,354</b>   | 82,666        | <b>11,840</b>   | 10,598        |
| <b>Current assets and liabilities</b>                    |      |                 |               |                 |               |
| Stock  |      | 1,812           | 1,828         | 232             | 234           |
| Trade and other receivables                              | 16   | 10,608          | 12,475        | 1,360           | 1,599         |
| Liquid funds   | 17   | 14,864          | 15,315        | 1,906           | 1,964         |
|  |      | <b>27,284</b>   | 29,618        | <b>3,498</b>    | 3,797         |
| Current portion of long-term liabilities                 | 12   | (20,752)        | (13,694)      | (2,660)         | (1,756)       |
| Trade and other payables                                 | 18   | (18,218)        | (17,646)      | (2,336)         | (2,262)       |
| Contract liabilities                                     | 19   | (15,941)        | (15,792)      | (2,044)         | (2,025)       |
| Bank overdrafts – unsecured                              |      | –               | (19)          | –               | (2)           |
| Taxation   |      | (1,951)         | (1,193)       | (250)           | (153)         |
| Dividend payable to non-controlling interests            |      | –               | (1)           | –               | –             |
|  |      | <b>(56,862)</b> | (48,345)      | <b>(7,290)</b>  | (6,198)       |
| <b>Net current liabilities</b>                           |      | <b>(29,578)</b> | (18,727)      | <b>(3,792)</b>  | (2,401)       |
| <b>Total assets less current liabilities</b>             |      | <b>157,654</b>  | 141,949       | <b>20,212</b>   | 18,198        |
| <b>Net assets</b>  |      | <b>62,776</b>   | 63,939        | <b>8,048</b>    | 8,197         |
| <b>CAPITAL AND RESERVES</b>                              |      |                 |               |                 |               |
| Share capital  | 20   | 17,106          | 17,106        | 2,193           | 2,193         |
| Reserves   | 22   | 45,667          | 46,830        | 5,855           | 6,004         |
| Funds attributable to the shareholders of Cathay Pacific |      | <b>62,773</b>   | 63,936        | <b>8,048</b>    | 8,197         |
| Non-controlling interests                                |      | 3               | 3             | –               | –             |
| <b>Total equity</b>                                      |      | <b>62,776</b>   | 63,939        | <b>8,048</b>    | 8,197         |

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The notes on pages 73 to 122 and the principal accounting policies on pages 123 to 137 form part of these financial statements.

**Patrick Healy**  
Director  
Hong Kong, 11th March 2020

**John Harrison**  
Director

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31st December 2019

|   | Note  | 2019<br>HK\$M   | 2018<br>HK\$M | 2019<br>US\$M  | 2018<br>US\$M |
|---|-------|-----------------|---------------|----------------|---------------|
| <b>Operating activities</b>                                       |       |                 |               |                |               |
| Cash generated from operations                                    | 23    | 18,458          | 17,737        | 2,366          | 2,274         |
| Interest received   |       | 179             | 248           | 23             | 32            |
| Interest paid   |       | (3,010)         | (1,956)       | (386)          | (251)         |
| Tax paid  |       | (285)           | (1,504)       | (36)           | (193)         |
| <b>Net cash inflow from operating activities</b>                  |       | <b>15,342</b>   | 14,525        | <b>1,967</b>   | 1,862         |
| <b>Investing activities</b>                                       |       |                 |               |                |               |
| Purchase of subsidiaries  | 26(b) | (1,697)         | –             | (218)          | –             |
| Net decrease in liquid funds other than cash and cash equivalents |       | 1,796           | 4,639         | 230            | 595           |
| Proceeds from sales of property, plant and equipment              |       | 134             | 71            | 17             | 9             |
| Proceeds from sales of intangible assets                          |       | –               | 196           | –              | 25            |
| Proceeds from sales of assets held for sale                       |       | –               | 865           | –              | 111           |
| Net increase in other long-term receivables and investments       |       | (60)            | –             | (8)            | –             |
| Payments for property, plant and equipment and intangible assets  |       | (12,171)        | (15,991)      | (1,560)        | (2,050)       |
| Dividends received from associates                                |       | 394             | 467           | 51             | 60            |
| Net repayments of loans to associates                             |       | –               | 1,121         | –              | 144           |
| <b>Net cash outflow from investing activities</b>                 |       | <b>(11,604)</b> | (8,632)       | <b>(1,488)</b> | (1,106)       |
| <b>Financing activities</b>                                       |       |                 |               |                |               |
| Purchase of non-controlling interests                             |       | –               | (36)          | –              | (5)           |
| New financing   | 12    | 16,975          | 11,237        | 2,176          | 1,441         |
| Initial cash benefit from lease arrangements                      | 15    | 837             | 1,029         | 107            | 132           |
| Loan and lease repayments   | 12    | (18,785)        | (16,198)      | (2,408)        | (2,077)       |
| Dividends paid – to the shareholders of Cathay Pacific            |       | (1,495)         | (590)         | (192)          | (76)          |
| – to non-controlling interests                                    |       | (1)             | (564)         | –              | (72)          |
| <b>Net cash outflow from financing activities</b>                 |       | <b>(2,469)</b>  | (5,122)       | <b>(317)</b>   | (657)         |
| <b>Increase in cash and cash equivalents</b>                      |       | <b>1,269</b>    | 771           | <b>162</b>     | 99            |
| Cash and cash equivalents at 1st January                          |       | 7,653           | 6,914         | 981            | 886           |
| Effect of exchange differences                                    |       | (41)            | (32)          | (5)            | (4)           |
| <b>Cash and cash equivalents at 31st December</b>                 | 25    | <b>8,881</b>    | 7,653         | <b>1,138</b>   | 981           |

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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2019

|  | Attributable to the shareholders of Cathay Pacific |                          |   |   |                                  |                 |                |                                    |                       |
|--|--|--------------------------|---|---|----------------------------------|-----------------|----------------|------------------------------------|-----------------------|
|  | Share capital<br>HK\$M                             | Retained profit<br>HK\$M | Investment revaluation reserve (recycling)<br>HK\$M | Investment revaluation reserve (non-recycling)<br>HK\$M | Cash flow hedge reserve<br>HK\$M | Others<br>HK\$M | Total<br>HK\$M | Non-controlling interests<br>HK\$M | Total equity<br>HK\$M |
| Balance at 31st December 2018                  | 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)               |
| Adjusted balance at 1st January 2019           | 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                   |
| <b>Total comprehensive income for the year</b> | -  | 2,752                    | -   | 33  | 551                              | (658)           | 2,678          | -                                  | 2,678                 |
| 2018 second interim dividend                   | -  | (787)                    | -   | -   | -                                | -               | (787)          | -                                  | (787)                 |
| 2019 first interim dividend                    | -  | (708)                    | -   | -   | -                                | -               | (708)          | -                                  | (708)                 |
| <b>At 31st December 2019</b>                   | <b>17,106</b>                                      | <b>45,867</b>            | <b>-</b>  | <b>(148)</b>  | <b>634</b>                       | <b>(686)</b>    | <b>62,773</b>  | <b>3</b>                           | <b>62,776</b>         |
| Balance at 31st December 2017                  | 17,106   | 44,115                   | 505   | -   | (1,503)                          | 878             | 61,101         | 171                                | 61,272                |
| Impact on initial application of HKFRS 9       | -  | 725                      | (505)   | (181)   | -                                | (39)            | -              | -                                  | -                     |
| Impact on initial application of HKFRS 15      | -  | 631                      | -   | -   | -                                | -               | 631            | -                                  | 631                   |
| Adjusted balance at 1st January 2018           | 17,106   | 45,471                   | -   | (181)   | (1,503)                          | 839             | 61,732         | 171                                | 61,903                |
| Profit for the year                            | -  | 2,345                    | -   | -   | -                                | -               | 2,345          | 432                                | 2,777                 |
| Other comprehensive income                     | -  | (270)                    | -   | -   | 1,586                            | (867)           | 449            | -                                  | 449                   |
| <b>Total comprehensive income for the year</b> | -  | 2,075                    | -   | -   | 1,586                            | (867)           | 2,794          | 432                                | 3,226                 |
| 2017 interim dividend                          | -  | (197)                    | -   | -   | -                                | -               | (197)          | -                                  | (197)                 |
| 2018 first interim dividend                    | -  | (393)                    | -   | -   | -                                | -               | (393)          | -                                  | (393)                 |
| Dividends paid to non-controlling interests    | -  | -                        | -   | -   | -                                | -               | -              | (564)                              | (564)                 |
| Purchase of non-controlling interests          | -  | -                        | -   | -   | -                                | -               | -              | (36)                               | (36)                  |
| <b>At 31st December 2018</b>                   | <b>17,106</b>                                      | <b>46,956</b>            | <b>-</b>  | <b>(181)</b>  | <b>83</b>                        | <b>(28)</b>     | <b>63,936</b>  | <b>3</b>                           | <b>63,939</b>         |

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

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## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Profit or Loss and Other Comprehensive Income

#### 1. SEGMENT INFORMATION (continued)

- (i) Cathay Pacific and Cathay Dragon 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 has changed in the year ended 31st December 2019 following the acquisition of HK Express (note 26 to the financial statements). Reportable segments are aligned with financial information provided regularly to the Group's executive management.

Due to such a change in the reportable segments, the previously reported segment results for the year ended 31st December 2018 have been restated to be comparable with the revised segmentation approach as required by HKFRS 8 "Operating Segments".

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.

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

#### (b) Geographical information

|                                    | 2019<br>HK\$M  | 2018<br>HK\$M |
|------------------------------------|----------------|---------------|
| Revenue by origin of sale:         |                |               |
| North Asia                         |                |               |
| – Hong Kong and Mainland China     | <b>54,198</b>  | 56,994        |
| – Japan, Korea and Taiwan          | <b>9,974</b>   | 10,882        |
| Americas                           | <b>14,084</b>  | 14,167        |
| Europe                             | <b>10,377</b>  | 10,592        |
| Southeast Asia                     | <b>7,598</b>   | 8,072         |
| Southwest Pacific                  | <b>5,586</b>   | 5,455         |
| South Asia, Middle East and Africa | <b>5,156</b>   | 4,898         |
|                                    | <b>106,973</b> | 111,060       |

#### *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. GAIN ON DEEMED PARTIAL DISPOSAL OF AN ASSOCIATE

On 31st October 2019, the Cathay Pacific Group's equity and economic interest in Air China Cargo of 49.00% was reduced to 34.78%, when the China National Aviation Holding Company group, as part of a mixed ownership reform to transform the business from an airport-to-airport service provider into a total logistics solution provider, injected certain equity interests and cash. A gain of HK\$114 million was recorded on this deemed partial disposal.

## 3. OPERATING PROFIT

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Operating profit has been arrived at after charging/(crediting):                           |               |               |
| Depreciation of property, plant and equipment  |               |               |
| – right-of-use assets  | 5,846         | 2,015         |
| – owned  | 7,826         | 7,234         |
| Amortisation of intangible assets  | 550           | 553           |
| Operating lease rentals for leases previously classified as operating leases under HKAS 17 |               |               |
| – land and buildings   | –             | 1,107         |
| – aircraft and related equipment   | –             | 4,579         |
| – others   | –             | 106           |
| Expenses relating to short-term leases   | 181           | –             |
| (Gain)/loss on disposal of property, plant and equipment, net                              | (175)         | 82            |
| Loss/(gain) on disposal of intangible assets   | 9             | (101)         |
| Cost of stock expensed   | 2,164         | 1,859         |
| Exchange differences, net  | (43)          | 438           |
| Auditors' remuneration   | 16            | 15            |
| Dividend income from unlisted equity investments   | (51)          | (42)          |

The Group has initially applied HKFRS 16 at 1st January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The carrying amount of the finance leased assets which were previously included in property, plant and equipment is also reclassified as a right-of-use asset. After initial recognition of right-of-use assets at 1st January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Profit or Loss and Other Comprehensive Income

#### 4. NET FINANCE CHARGES

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Net interest charges comprise:   |               |               |
| – leases liabilities stated at amortised cost  | 1,404         | 656           |
| – bank loans and overdrafts  |               |               |
| – wholly repayable within five years   | 673           | 585           |
| – not wholly repayable within five years   | 1,090         | 948           |
| – other loans  |               |               |
| – wholly repayable within five years   | 110           | 119           |
|  | <b>3,277</b>  | 2,308         |
| Income from liquid funds:  |               |               |
| – funds with investment managers and other liquid investments at fair value through profit or loss | (170)         | (101)         |
| – bank deposits and others   | (167)         | (242)         |
|  | <b>(337)</b>  | (343)         |
| Fair value change:   |               |               |
| – gain on financial liabilities designated at fair value through profit or loss                    | (26)          | (75)          |
| – loss on financial derivatives  | 25            | 224           |
|  | <b>(1)</b>    | 149           |
|  | <b>2,939</b>  | 2,114         |

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\$40 million (2018: net loss of HK\$71 million).

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

#### 5. TAXATION

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Current tax expenses  |               |               |
| – Hong Kong profits tax                                       | 137           | 350           |
| – overseas tax  | 205           | 225           |
| – under provisions for prior years                            | 12            | 28            |
| Deferred tax  |               |               |
| – origination and reversal of temporary differences (note 15) | 100           | (137)         |
|   | <b>454</b>    | 466           |

Hong Kong profits tax is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 30(c) to the financial statements).

## 5. TAXATION (continued)

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

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Profit before taxation   | 2,145         | 3,243         |
| Notional tax calculated at Hong Kong profits tax rate of 16.5% (2018: 16.5%) | (354)         | (535)         |
| Expenses not deductible for tax purposes                                     | (148)         | (198)         |
| Income not subject to tax  | 44            | 36            |
| Effect of changes in effective tax rate and jurisdictional differences       | 284           | 395           |
| Tax under provisions arising from prior years                                | (12)          | (28)          |
| Tax losses not recognised  | (268)         | (136)         |
| Tax charge   | (454)         | (466)         |

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

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

## 6. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK\$1,691 million (2018: HK\$2,345 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2018: 3,934 million) shares. Diluted earnings per share is the same as basic earnings per share as there were no dilutive potential shares in issue throughout the year.

## 7. OTHER COMPREHENSIVE INCOME

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Defined benefit plans   |               |               |
| – remeasurement gain/(loss) recognised during the year (note 14)  | 1,188         | (311)         |
| – deferred taxation (note 15)   | (127)         | 41            |
| Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling) |               |               |
| – gain recognised during the year   | 33            | –             |
| Cash flow hedges  |               |               |
| – gain recognised during the year   | 1,455         | 428           |
| – (gain)/loss transferred to profit or loss (note 22)   | (831)         | 1,366         |
| – deferred taxation (note 15)   | (73)          | (208)         |
| Share of other comprehensive income of associates   |               |               |
| – recognised during the year  | (186)         | 628           |
| Exchange differences on translation of foreign operations   |               |               |
| – loss recognised during the year   | (556)         | (1,495)       |
| – reclassified to profit or loss upon deemed partial disposal   | 84            | –             |
| Other comprehensive income for the year   | 987           | 449           |

# NOTES TO THE FINANCIAL STATEMENTS

## Statement of Financial Position

### 8. PROPERTY, PLANT AND EQUIPMENT

|  | Aircraft and related equipment |                            |  | Other equipment |                                     | Land and buildings |                                     |                                | Total<br>HK\$M |
|--|--------------------------------|----------------------------|--|-----------------|-------------------------------------|--------------------|-------------------------------------|--------------------------------|----------------|
|  | Owned<br>HK\$M                 | Finance<br>leased<br>HK\$M | Right-of-<br>use<br>assets <sup>(a)</sup><br>HK\$M | Owned<br>HK\$M  | Right-of-<br>use<br>assets<br>HK\$M | Owned<br>HK\$M     | Right-of-<br>use<br>assets<br>HK\$M | Under<br>construction<br>HK\$M |                |
| <b>Cost</b>  |                                |                            |  |                 |                                     |                    |                                     |                                |                |
| At 1st January 2019  | 122,247                        | 44,526                     | -  | 5,413           | -                                   | 15,191             | -                                   | 22                             | 187,399        |
| Adoption of HKFRS 16 –<br>reclassification of finance<br>leases <sup>(a)</sup>                       | -                              | (44,526)                   | 44,526   | -               | -                                   | -                  | -                                   | -                              | -              |
| Adoption of HKFRS 16 –<br>reclassification of<br>leasehold land rental<br>prepayments <sup>(b)</sup> | -                              | -                          | -  | -               | -                                   | -                  | 2,059                               | -                              | 2,059          |
| Adoption of HKFRS 16 –<br>recognition of operating<br>leases <sup>(c)</sup>                          | -                              | -                          | 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<br>adjustments  | -                              | -                          | (37)   | -               | (78)                                | -                  | 191                                 | -                              | 76             |
| At 31st December 2019  | 132,364                        | -                          | 61,228   | 5,616           | 217                                 | 15,333             | 7,566                               | 20                             | 222,344        |
| At 1st January 2018  | 110,301                        | 43,711                     | -  | 5,424           | -                                   | 15,141             | -                                   | 35                             | 174,612        |
| Exchange difference  | -                              | -                          | -  | (1)             | -                                   | -                  | -                                   | -                              | (1)            |
| Additions  | 12,936                         | 2,136                      | -  | 157             | -                                   | 129                | -                                   | 32                             | 15,390         |
| Disposals  | (2,311)                        | -                          | -  | (167)           | -                                   | (92)               | -                                   | (32)                           | (2,602)        |
| Transfers  | 1,321                          | (1,321)                    | -  | -               | -                                   | 13                 | -                                   | (13)                           | -              |
| At 31st December 2018  | 122,247                        | 44,526                     | -  | 5,413           | -                                   | 15,191             | -                                   | 22                             | 187,399        |
| <b>Accumulated depreciation and impairment</b>   |                                |                            |  |                 |                                     |                    |                                     |                                |                |
| At 1st January 2019  | 47,770                         | 13,405                     | -  | 3,359           | -                                   | 5,741              | -                                   | -                              | 70,275         |
| Adoption of HKFRS 16 –<br>reclassification of finance<br>leases <sup>(a)</sup>                       | -                              | (13,405)                   | 13,405   | -               | -                                   | -                  | -                                   | -                              | -              |
| Adoption of HKFRS 16 –<br>reclassification of<br>leasehold land rental<br>prepayments <sup>(b)</sup> | -                              | -                          | -  | -               | -                                   | -                  | 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         |
| At 1st January 2018  | 42,944                         | 12,237                     | -  | 3,165           | -                                   | 5,084              | -                                   | -                              | 63,430         |
| Charge for the year  | 6,149                          | 2,015                      | -  | 360             | -                                   | 725                | -                                   | -                              | 9,249          |
| Disposals  | (2,170)                        | -                          | -  | (166)           | -                                   | (68)               | -                                   | -                              | (2,404)        |
| Transfers  | 847                            | (847)                      | -  | -               | -                                   | -                  | -                                   | -                              | -              |
| At 31st December 2018  | 47,770                         | 13,405                     | -  | 3,359           | -                                   | 5,741              | -                                   | -                              | 70,275         |
| <b>Net book value</b>  |                                |                            |  |                 |                                     |                    |                                     |                                |                |
| At 31st December 2019  | 79,837                         | -                          | 43,475   | 1,991           | 179                                 | 8,859              | 5,753                               | 20                             | 140,114        |
| At 31st December 2018  | 74,477                         | 31,121                     | -  | 2,054           | -                                   | 9,450              | -                                   | 22                             | 117,124        |

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

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

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

## 8. PROPERTY, PLANT AND EQUIPMENT (continued)

*Applicable prior to 1st January 2019*

The Group had the right to use certain assets under lease arrangements. These were classified as either finance leases or operating leases.

### (a) Finance leased assets

Certain aircraft were held under finance leases with purchase options to be exercised at the end of the respective leases. The remaining lease terms ranged from 1 to 11 years. Some of the rent payments were on a floating basis which were generally linked to market rates of interest. All leases permitted subleasing rights subject to appropriate consent from lessors. Early repayment penalties would be payable on some of the leases should they be terminated prior to their specified expiry dates.

### (b) Operating leased assets

Certain aircraft, land, buildings and other equipment were held under operating leases.

Under the operating lease arrangements for aircraft, the lease rentals were partially fixed and partially floating and subleasing was not allowed. At 31st December 2018, 60 aircraft held under operating leases, most with purchase options, were not capitalised.

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

The future minimum lease payments payable under operating leases committed at 31st December 2018 for each of the following periods were as follows:

|   | 2018<br>HK\$M |
|---|---------------|
| Aircraft and related equipment:         |               |
| – within one year                       | 3,469         |
| – after one year but within two years   | 3,109         |
| – after two years but within five years | 6,017         |
| – after five years                      | 3,055         |
|   | 15,650        |
| Land, buildings and other equipment:    |               |
| – within one year                       | 858           |
| – after one year but within two years   | 485           |
| – after two years but within five years | 932           |
| – after five years                      | 2,033         |
|   | 4,308         |
|   | 19,958        |

*Applicable from 1st January 2019*

### (c) 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 which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach at 1st January 2019. Under this approach, the Group adjusted the opening balances at 1st January 2019 to recognise right-of-use assets and lease liabilities relating to these leases (See accounting policy 1). From 1st January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with accounting policies 6 and 9.

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Financial Position

#### 8. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31st December 2019, additions to right-of-use assets were HK\$1,585 million, a significant proportion of which is related to the delivery of a leased aircraft.

Details of cash outflows and significant non-cash transaction for leases, and the maturity analysis of lease liabilities are set out in notes 24 and 12 to the financial statements, respectively.

##### (i) Aircraft and related equipment

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

The Group held 42 aircraft at 31st December 2019 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 69 aircraft at 31st December 2019 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 11 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 is 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 at lease commencement date 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<br>recognised<br>(discounted)<br>HK\$M | Potential future lease payments under<br>extension options not included in lease<br>liabilities (undiscounted)<br>HK\$M |
|--------------------------------|--|---|
| Aircraft and related equipment | 35,259   | 8,993   |

##### (ii) Other equipment

The Group leases other equipment under leases expiring from 1 to 9 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 28 years.

##### (iv) Properties leased for own use

The Group leases other properties under leases expiring from 1 to 14 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.

- (d) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. As at the year end, advance payments included in owned aircraft and related equipment amounted to HK\$3,945 million (2018: HK\$3,560 million) for the Group. No depreciation is provided on these advance payments.
- (e) Security, including charges over the assets concerned and relevant insurance policies, is provided to the leasing companies or other parties that provide the underlying finance. Further information is provided in note 12 to the financial statements.

## 9. INTANGIBLE ASSETS

|  | Goodwill<br>HK\$M | Computer<br>software<br>HK\$M | Others<br>HK\$M | Total<br>HK\$M |
|--|-------------------|-------------------------------|-----------------|----------------|
| <b>Cost</b>                                    |                   |                               |                 |                |
| 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         |
| At 1st January 2018                            | 7,666             | 6,227                         | 253             | 14,146         |
| Additions                                      | –                 | 601                           | –               | 601            |
| Disposals                                      | –                 | –                             | (214)           | (214)          |
| At 31st December 2018                          | 7,666             | 6,828                         | 39              | 14,533         |
| <b>Accumulated amortisation and impairment</b> |                   |                               |                 |                |
| 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          |
| At 1st January 2018                            | –                 | 2,793                         | 132             | 2,925          |
| Charge for the year                            | –                 | 549                           | 4               | 553            |
| Disposals                                      | –                 | –                             | (119)           | (119)          |
| At 31st December 2018                          | –                 | 3,342                         | 17              | 3,359          |
| <b>Net book value</b>                          |                   |                               |                 |                |
| At 31st December 2019                          | 11,654            | 3,478                         | 19              | 15,151         |
| At 31st December 2018                          | 7,666             | 3,486                         | 22              | 11,174         |

Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:

|                                  | 2019<br>HK\$M | 2018<br>HK\$M |
|----------------------------------|---------------|---------------|
| Cathay Pacific and Cathay Dragon | 7,884         | 7,512         |
| HK Express                       | 3,616         | –             |
| Others                           | 154           | 154           |
|                                  | <b>11,654</b> | 7,666         |

Goodwill attributable to Cathay Pacific and Cathay Dragon of HK\$7,884 million (2018: HK\$7,512 million) relates primarily to the acquisition of Cathay Dragon, with new additions in the year of HK\$372 million being goodwill from the acquisition of HK Express allocated to the Cathay Pacific and Cathay Dragon CGU. The recoverable amount of Cathay Pacific and Cathay Dragon CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on three-year financial budgets approved by the Board and business plans covering years four to ten. A ten-year forecast is considered appropriate for the airline operations to take into account expected growth plans, inflationary pressures and modest productivity improvements. Cash flows beyond the ten-year period are extrapolated with an estimated general annual growth rate of 1.50% to 2.25% (2018: 1.5% to 3.0%) which does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 7.2% (2018: 8.2%) is pre-tax and reflects the specific risks related to the relevant segment.

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Financial Position

#### 9. INTANGIBLE ASSETS (continued)

Goodwill attributable to HK Express of HK\$3,616 million (2018: nil) 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 HK Express CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on twelve-year business plans approved by the Board. A twelve-year forecast is considered appropriate for this newly-acquired airline operation to take into account expected growth plans, inflationary pressures and modest productivity improvements. Cash flows beyond the twelve-year period are extrapolated with an estimated general annual growth rate of 1.50% to 2.25% which does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 7.5% is pre-tax and reflects the specific risks related to the relevant segment.

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

#### 10. INVESTMENTS IN ASSOCIATES

|                           | 2019<br>HK\$M | 2018<br>HK\$M |
|---------------------------|---------------|---------------|
| Share of net assets       |               |               |
| – listed in Hong Kong     | 20,090        | 20,821        |
| – unlisted                | 3,404         | 3,115         |
| Goodwill                  | 3,266         | 3,337         |
|                           | <b>26,760</b> | 27,273        |
| Loans due from associates | 295           | 297           |
|                           | <b>27,055</b> | 27,570        |

At 31st December 2019, the market value of the shares in an associate, Air China, listed in Hong Kong is HK\$20,833 million (2018: HK\$17,962 million).

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

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Gross amounts of the associate's  |               |               |
| – current assets  | 27,452        | 28,740        |
| – non-current assets  | 294,621       | 246,280       |
| – current liabilities   | (84,402)      | (82,479)      |
| – non-current liabilities   | (124,361)     | (77,043)      |
| Revenue   | 157,601       | 154,285       |
| Profit from continuing operations   | 8,832         | 7,895         |
| Other comprehensive income  | (232)         | 4,119         |
| Total comprehensive income  | 8,600         | 12,014        |
| Dividend received from the associate  | 309           | 374           |
| Reconciled to the Group's interests in the associate  |               |               |
| – gross amounts of net assets of the associate  | 113,310       | 115,498       |
| – Group's share of net assets of the associate at effective interest (2019: 18.13%; 2018: 18.13%) | 20,543        | 20,940        |
| – effect of cross shareholding and others   | (453)         | (119)         |
| – goodwill  | 3,266         | 3,337         |
|   | <b>23,356</b> | 24,158        |

## 10. 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 Mainland China.

The Group's 2019 results include Air China's results for the 12 months ended 30th September 2019 and any significant events or transactions for the period from 1st October 2019 to 31st December 2019. Air China's most recently available accounts were drawn up to 30th September 2019 (2018: 30th September 2018).

Air China has initially applied IFRS 16 "Leases" at 1st January 2019 to recognise additional right-of-use assets of HK\$38,844 million and lease liabilities of HK\$46,209 million relating to leases which were previously classified as operating leases under IAS 17 "Leases". Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

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

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Aggregate carrying amount of individually immaterial associates | 3,699         | 3,412         |
| Aggregate amounts of the Group's share of those associates      |               |               |
| – profit from continuing operations                             | 235           | 369           |
| – other comprehensive income                                    | (54)          | (215)         |
| – total comprehensive income                                    | 181           | 154           |

Principal associates are listed on page 122.

## 11. OTHER LONG-TERM RECEIVABLES AND INVESTMENTS

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Unlisted equity investments   |               |               |
| – designated at fair value through other comprehensive income (non-recycling) | 56            | 23            |
| – measured at fair value through profit or loss                               | 830           | 742           |
| Leasehold land rental prepayments   | –             | 1,173         |
| Other long-term receivables measured at amortised cost                        | 888           | 217           |
| Derivative financial assets – long-term portion                               | 1,579         | 1,860         |
| Retirement benefit assets (note 14)   | 470           | –             |
|   | <b>3,823</b>  | 4,015         |

At 31st December 2018, leasehold land was held under medium-term leases in Hong Kong with a total unamortised value of HK\$1,216 million. The balance is included in above, except for HK\$43 million which was included in trade and other receivables.

At 1st January 2019, leasehold land rental prepayments have been reclassified as right-of-use assets upon adoption of HKFRS 16. See note 8 to the financial statements.

At 31st December 2019, total derivative financial assets of the Group which did not qualify for hedge accounting amounted to HK\$1,415 million (2018: HK\$1,478 million). The balance is included in above, except for HK\$8 million which was included in trade and other receivables at 31st December 2018.

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Financial Position

## 12. LONG-TERM LIABILITIES

|                   | Note | 2019          |                   | 2018          |                   |
|-------------------|------|---------------|-------------------|---------------|-------------------|
|                   |      | Current HK\$M | Non-current HK\$M | Current HK\$M | Non-current HK\$M |
| Long-term loans   | (a)  | <b>13,634</b> | <b>43,134</b>     | 9,734         | 40,952            |
| Lease liabilities | (b)  | <b>7,118</b>  | <b>33,374</b>     | 3,960         | 19,231            |
|                   |      | <b>20,752</b> | <b>76,508</b>     | 13,694        | 60,183            |

### (a) Long-term loans

|  | 2019<br>HK\$M   | 2018<br>HK\$M |
|--|-----------------|---------------|
| Bank loans   |                 |               |
| – secured  | <b>35,332</b>   | 34,772        |
| – unsecured  | <b>18,247</b>   | 12,623        |
| Other loans  |                 |               |
| – unsecured  | <b>3,189</b>    | 3,291         |
|  | <b>56,768</b>   | 50,686        |
| Amount due within one year included in current liabilities | <b>(13,634)</b> | (9,734)       |
|  | <b>43,134</b>   | 40,952        |
| Repayable as follows:                                      |                 |               |
| Bank loans   |                 |               |
| – within one year  | <b>12,557</b>   | 8,236         |
| – after one year but within two years                      | <b>10,226</b>   | 10,128        |
| – after two years but within five years                    | <b>19,832</b>   | 16,940        |
| – after five years   | <b>10,964</b>   | 12,091        |
|  | <b>53,579</b>   | 47,395        |
| Other loans  |                 |               |
| – within one year  | <b>1,077</b>    | 1,498         |
| – after one year but within two years                      | <b>301</b>      | 974           |
| – after two years but within five years                    | <b>1,811</b>    | 819           |
|  | <b>3,189</b>    | 3,291         |
| Amount due within one year included in current liabilities | <b>(13,634)</b> | (9,734)       |
|  | <b>43,134</b>   | 40,952        |

At 31st December 2019, aircraft and related equipment of HK\$54,453 million (2018: HK\$51,626 million) are pledged as security for the secured bank loans.

Borrowings other than bank loans are repayable on various dates up to 2022 while bank loans are repayable up to 2031.

Long-term loans of the Group not wholly repayable within five years amounted to HK\$29,465 million (2018: HK\$30,799 million).

At 31st December 2019, the Group had long-term loans totalling HK\$42,657 million (2018: HK\$42,019 million) which were defeased by funds and other investments. Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been defeased in the financial statements.

## 12. LONG-TERM LIABILITIES (continued)

### (b) Lease liabilities

The Group has commitments under lease agreements in respect of aircraft, property facilities and offices and other equipment. 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 and at the date of transition to HKFRS 16 is as follows:

|  | At 31st<br>December 2019<br>HK\$M | At 31st<br>December 2018<br>HK\$M | Impact of initial<br>application of<br>HKFRS 16<br>HK\$M | At 1st<br>January 2019<br>HK\$M |
|--|-----------------------------------|-----------------------------------|--|---------------------------------|
| Future payments  | 45,104                            | 25,951                            | 21,153   | 47,104                          |
| Interest charges relating to future periods                | (4,612)                           | (2,760)                           | (2,550)  | (5,310)                         |
| Present value of future payments                           | 40,492                            | 23,191                            | 18,603   | 41,794                          |
| Amount due within one year included in current liabilities | (7,118)                           | (3,960)                           | (3,333)  | (7,293)                         |
|  | <b>33,374</b>                     | 19,231                            | 15,270   | 34,501                          |

The present value of future payments is repayable as follows:

|                                       | At 31st<br>December 2019<br>HK\$M | At 31st<br>December 2018<br>HK\$M | Impact of initial<br>application of<br>HKFRS 16<br>HK\$M | At 1st<br>January 2019<br>HK\$M |
|---------------------------------------|-----------------------------------|-----------------------------------|--|---------------------------------|
| Within one year                       | 7,118                             | 3,960                             | 3,333  | 7,293                           |
| After one year but within two years   | 6,587                             | 3,107                             | 3,323  | 6,430                           |
| After two years but within five years | 16,848                            | 10,038                            | 6,913  | 16,951                          |
| After five years                      | 9,939                             | 6,086                             | 5,034  | 11,120                          |
|                                       | <b>40,492</b>                     | 23,191                            | 18,603   | 41,794                          |

The undiscounted future payments are repayable as follows:

|                                       | At 31st<br>December 2019<br>HK\$M | At 31st<br>December 2018<br>HK\$M | Impact of initial<br>application of<br>HKFRS 16<br>HK\$M | At 1st<br>January 2019<br>HK\$M |
|---------------------------------------|-----------------------------------|-----------------------------------|--|---------------------------------|
| Within one year                       | 8,233                             | 4,604                             | 3,993  | 8,597                           |
| After one year but within two years   | 7,518                             | 3,637                             | 3,819  | 7,456                           |
| After two years but within five years | 18,546                            | 11,059                            | 7,821  | 18,880                          |
| After five years                      | 10,807                            | 6,651                             | 5,520  | 12,171                          |
|                                       | <b>45,104</b>                     | 25,951                            | 21,153   | 47,104                          |

At 31st December 2019, the Group had financial liabilities designated at fair value through profit or loss of HK\$1,415 million (2018: HK\$1,567 million).

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### Statement of Financial Position

#### 12. LONG-TERM LIABILITIES (continued)

##### (c) Reconciliation of long-term liabilities

|  | Long-term<br>loans<br>HK\$M | Lease<br>liabilities<br>HK\$M | Total<br>HK\$M |
|--|-----------------------------|-------------------------------|----------------|
| 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 subsidiary                                 | 410                         | 4,668                         | 5,078          |
| Changes from financing cash flows                      |                             |                               |                |
| – new financing  | 16,729                      | 246                           | 16,975         |
| – loan and lease 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         |
| At 1st January 2018                                    | 53,894                      | 24,500                        | 78,394         |
| Changes from financing cash flows                      |                             |                               |                |
| – new financing  | 8,523                       | 2,714                         | 11,237         |
| – loan and finance lease repayments                    | (12,053)                    | (4,145)                       | (16,198)       |
| Other changes  |                             |                               |                |
| – exchange loss  | 63                          | 34                            | 97             |
| – changes in fair values                               | –                           | (73)                          | (73)           |
| – others   | 259                         | 161                           | 420            |
| At 31st December 2018                                  | 50,686                      | 23,191                        | 73,877         |

The Group has initially applied HKFRS 16 at 1st January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Under the transition methods chosen, comparative information in 2018 is not restated and relates solely to leases previously classified as finance leases. See accounting policy 1.

### 13. OTHER LONG-TERM PAYABLES

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Deferred liabilities                                 | 4,412         | 3,335         |
| Derivative financial liabilities - long-term portion | 394           | 841           |
| Retirement benefit liabilities (note 14)             | -             | 473           |
|  | <b>4,806</b>  | <b>4,649</b>  |

Included in deferred liabilities above, the Group had a maintenance provision of HK\$5,031 million (2018: HK\$3,666 million) for returning the aircraft to lessors to certain maintenance conditions. The movements during the year are as follows:

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| At 1st January  | 3,666         | 3,217         |
| Purchase of a subsidiary  | 909           | -             |
| Additional provision made   | 740           | 853           |
| Provision utilised  | (284)         | (404)         |
| At 31st December  | 5,031         | 3,666         |
| Amount expected to be utilised within one year included in trade and other payables | (619)         | (481)         |
|   | <b>4,412</b>  | <b>3,185</b>  |

At 31st December 2019 and 2018, there was insignificant balance of derivative financial liabilities of the Group which did not qualify for hedge accounting.

### 14. RETIREMENT BENEFITS

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

The Group operates the following principal schemes:

(a) Defined benefit retirement schemes

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

The Swire Group Retirement Benefits Scheme ("SGRBS") in Hong Kong, in which the Company, Cathay Pacific Catering Services (H.K.) Limited ("CPCS") and Vogue Laundry Service Limited ("Vogue") are participating employers, 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, Vogue 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.

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### Statement of Financial Position

#### 14. RETIREMENT BENEFITS (continued)

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

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market 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 under the provision of Hong Kong's Occupational Retirement Schemes Ordinance.

The disclosures are based on actuarial valuations prepared by an independent firm of actuaries, Mercer (Hong Kong) Limited ("Mercer"), every three years. 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 were for the period ended 31st December 2018.

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 106.8% (2018: 93.7%) covered by the plan assets held by the trustees at 31st December 2019.

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Net expenses recognised in the profit or loss:                              |               |               |
| Current service cost  | 264           | 287           |
| Net interest cost   | 5             | 6             |
| Total included in staff costs   | 269           | 293           |
| Actual return/(loss) on plan assets   | 814           | (295)         |
|   | 2019<br>HK\$M | 2018<br>HK\$M |
| Net (assets)/liabilities recognised in the statement of financial position: |               |               |
| Present value of funded obligations   | 6,890         | 7,547         |
| Fair value of plan assets   | (7,360)       | (7,074)       |
| Retirement benefit (assets)/liabilities (notes 11 and 13)                   | (470)         | 473           |

## 14. RETIREMENT BENEFITS (continued)

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Movements in present value of funded obligations comprise:               |               |               |
| At 1st January   | 7,547         | 7,937         |
| Remeasurements:  |               |               |
| – actuarial losses/(gains) arising from changes in financial assumptions | 167           | (208)         |
| – experience (gains)/losses  | (765)         | 28            |
| Movements for the year   |               |               |
| – current service cost   | 264           | 287           |
| – interest expense   | 229           | 202           |
| – employee contributions   | 1             | 2             |
| – benefits paid  | (627)         | (671)         |
| – transfer   | 74            | (30)          |
| At 31st December   | 6,890         | 7,547         |

The weighted average duration of the defined benefit obligations is six years (2018: six years).

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Movements in fair value of plan assets comprise:         |               |               |
| At 1st January   | 7,074         | 8,041         |
| Movements for the year                                   |               |               |
| – return/(loss) on plan assets excluding interest income | 590           | (491)         |
| – interest income  | 224           | 196           |
| – employee contributions                                 | 1             | 2             |
| – employer contributions                                 | 24            | 27            |
| – benefits paid  | (627)         | (671)         |
| – transfer   | 74            | (30)          |
| At 31st December   | 7,360         | 7,074         |

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

|                                      | 2019<br>HK\$M | %   | 2018<br>HK\$M | %   |
|--------------------------------------|---------------|-----|---------------|-----|
| Fair value of plan assets comprises: |               |     |               |     |
| Equities                             |               |     |               |     |
| – Asia Pacific                       | 527           | 7   | 475           | 7   |
| – Europe                             | 508           | 7   | 417           | 6   |
| – Americas                           | 811           | 11  | 672           | 9   |
| – Emerging markets                   | 1,361         | 18  | 1,159         | 16  |
| Bonds                                |               |     |               |     |
| – Global                             | 1,535         | 21  | 1,820         | 26  |
| – Emerging markets                   | 138           | 2   | 109           | 1   |
| Absolute return funds                | 1,559         | 21  | 1,460         | 21  |
| Cash                                 | 921           | 13  | 962           | 14  |
|                                      | 7,360         | 100 | 7,074         | 100 |

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Financial Position

#### 14. RETIREMENT BENEFITS (continued)

At 31st December 2019, the prices of 96% of equities and 28% of bonds were quoted on active markets (31st December 2018: 96% and 39% 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\$24 million to the schemes in 2020.

|  | 2019         |              | 2018  |        |
|--|--------------|--------------|-------|--------|
|  | SGRBS        | CPALRS       | SGRBS | CPALRS |
| The significant actuarial assumptions are: |              |              |       |        |
| Discount rate                              | <b>2.93%</b> | <b>2.93%</b> | 3.34% | 3.34%  |
| Expected rate of future salary increases   | <b>3.00%</b> | <b>3.04%</b> | 5.00% | 3.04%  |

The sensitivity of the defined benefit obligations to changes in the actuarial assumptions are set out below. This shows how the defined benefit obligations at 31st December 2019 would have (increased)/decreased as a result of 0.5% change in the actuarial assumptions:

|  | Increase by 0.5% |               | Decrease by 0.5% |               |
|--|------------------|---------------|------------------|---------------|
|  | 2019<br>HK\$M    | 2018<br>HK\$M | 2019<br>HK\$M    | 2018<br>HK\$M |
| Discount rate                            | <b>203</b>       | 195           | <b>(211)</b>     | (205)         |
| Expected rate of future salary increases | <b>(210)</b>     | (199)         | <b>205</b>       | 192           |

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

#### (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\$162 million (2018: nil) which have been applied towards the contributions payable by the Company.

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

Contributions to defined contribution retirement schemes charged to the profit or loss were HK\$1,062 million (2018: HK\$1,271 million).

## 15. DEFERRED TAXATION

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Deferred tax assets:                               |               |               |
| – provisions                                       | (80)          | (83)          |
| – tax losses                                       | (3,405)       | (2,944)       |
| – cash flow hedges                                 | –             | (3)           |
| – retirement benefits                              | –             | (55)          |
| – right-of-use assets                              | (144)         | –             |
| Deferred tax liabilities:                          |               |               |
| – accelerated tax depreciation                     | 4,667         | 4,419         |
| – investments in associates                        | 1,121         | 1,125         |
| – cash flow hedges                                 | 70            | –             |
| – retirement benefits                              | 47            | –             |
| Provision in respect of certain lease arrangements | 10,199        | 9,926         |
|  | <b>12,475</b> | 12,385        |

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

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Net deferred tax asset recognised in the statement of financial position     | (1,089)       | (793)         |
| Net deferred tax liability recognised in the statement of financial position | 13,564        | 13,178        |
|  | <b>12,475</b> | 12,385        |

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Movements in deferred taxation comprise:   |               |               |
| At 1st January   | 12,385        | 11,892        |
| Impact on initial application of HKFRS 15  | –             | 71            |
| Impact on initial application of HKFRS 16  | (252)         | –             |
| At 1st January 2019, adjusted  | 12,133        | 11,963        |
| Movements for the year   |               |               |
| – purchase of a subsidiary   | (231)         | –             |
| – charged/(credited) to profit or loss   |               |               |
| – deferred tax charge/(credit) (note 5)  | 100           | (137)         |
| – operating expenses   | 91            | 83            |
| – charged/(credited) to other comprehensive income   |               |               |
| – transferred to cash flow hedge reserve (note 7)  | 73            | 208           |
| – transferred to retained profit (note 7)  | 127           | (41)          |
| – initial cash benefit from lease arrangements   | 837           | 1,029         |
| Current portion of provision in respect of certain lease arrangements included in current liabilities – taxation | (655)         | (720)         |
| At 31st December   | <b>12,475</b> | 12,385        |

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Financial Position

#### 15. DEFERRED TAXATION (continued)

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK\$15,882 million (2018: HK\$14,373 million) to carry forward against future taxable profits. These amounts are analysed as follows:

|                              | 2019<br>HK\$M | 2018<br>HK\$M |
|------------------------------|---------------|---------------|
| No expiry date               | 5,793         | 4,282         |
| Expiring within 2021 to 2037 | 10,089        | 10,091        |
|                              | <b>15,882</b> | <b>14,373</b> |

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2020 to 2030 (2018: 2019 to 2029) as follows:

|                                      | 2019<br>HK\$M | 2018<br>HK\$M |
|--------------------------------------|---------------|---------------|
| After one year but within five years | 5,027         | 4,204         |
| After five years but within 10 years | 4,508         | 4,906         |
| After 10 years                       | 664           | 816           |
|                                      | <b>10,199</b> | <b>9,926</b>  |

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

#### 16. TRADE AND OTHER RECEIVABLES

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Trade debtors, net of loss allowances           | 5,559         | 6,559         |
| Derivative financial assets – current portion   | 431           | 499           |
| Other receivables and prepayments               | 4,567         | 5,343         |
| Due from associates and other related companies | 51            | 74            |
|   | <b>10,608</b> | <b>12,475</b> |

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Analysis of trade debtors (net of loss allowances) by invoice date: |               |               |
| Within one month  | 4,374         | 5,009         |
| One to three months   | 713           | 1,166         |
| More than three months  | 472           | 384           |
|   | <b>5,559</b>  | <b>6,559</b>  |

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Analysis of trade debtors (net of loss allowances) by age: |               |               |
| Current  | 4,984         | 5,519         |
| Within three months overdue                                | 430           | 816           |
| More than three months overdue                             | 145           | 224           |
|  | <b>5,559</b>  | <b>6,559</b>  |

## 16. TRADE AND OTHER RECEIVABLES (continued)

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

|                              | 2019<br>HK\$M | 2018<br>HK\$M |
|------------------------------|---------------|---------------|
| At 1st January               | 83            | 45            |
| Amounts written off          | (2)           | –             |
| Impairment losses recognised | –             | 38            |
| At 31st December             | 81            | 83            |

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

## 17. LIQUID FUNDS

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Short-term deposits and bank balances (note 25)              | 8,881         | 7,672         |
| Short-term deposits maturing beyond three months when placed | 719           | 2,488         |
| Funds with investment managers                               |               |               |
| – debt securities listed outside Hong Kong                   | 5,079         | 4,963         |
| – bank deposits  | 43            | 27            |
| Other liquid investments                                     |               |               |
| – debt securities listed outside Hong Kong                   | 5             | 5             |
| – bank deposits  | 137           | 160           |
| Liquid funds   | 14,864        | 15,315        |

Included in other liquid investments are bank deposits of HK\$137 million (2018: HK\$160 million) and debt securities of HK\$5 million (2018: 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.

Available unrestricted funds to the Group are as follows:

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Liquid funds  | 14,864        | 15,315        |
| Less amounts pledged as part of long-term financing |               |               |
| – debt securities listed outside Hong Kong          | (5)           | (5)           |
| – bank deposits                                     | (137)         | (160)         |
| Committed undrawn facilities                        | 5,289         | 4,680         |
| Available unrestricted liquidity to the Group       | 20,011        | 19,830        |

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

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#### 18. TRADE AND OTHER PAYABLES

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Trade creditors                                    | 8,448         | 6,801         |
| Derivative financial liabilities – current portion | 523           | 1,218         |
| Other payables                                     | 8,968         | 9,255         |
| Due to associates                                  | 125           | 179           |
| Due to other related companies                     | 154           | 193           |
|  | <b>18,218</b> | 17,646        |
|  | 2019<br>HK\$M | 2018<br>HK\$M |
| Analysis of trade creditors by invoice date:       |               |               |
| Within one month                                   | 8,018         | 6,425         |
| One to three months                                | 403           | 337           |
| More than three months                             | 27            | 39            |
|  | <b>8,448</b>  | 6,801         |

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\$794 million (2018: HK\$780 million) for possible or actual taxation (other than income tax), litigation and claims. The movements during the year are as follows:

|                           | 2019<br>HK\$M | 2018<br>HK\$M |
|---------------------------|---------------|---------------|
| At 1st January            | 780           | 696           |
| Additional provision made | 152           | 160           |
| Provision utilised        | (138)         | (76)          |
| At 31st December          | <b>794</b>    | 780           |

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

#### 19. CONTRACT LIABILITIES

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

|  |             | 2019<br>HK\$M | 2018<br>HK\$M |
|--|-------------|---------------|---------------|
| Passenger revenue                      | <i>(i)</i>  | 8,954         | 9,149         |
| Passenger fuel and insurance surcharge | <i>(i)</i>  | 1,805         | 1,804         |
| Loyalty programme                      | <i>(ii)</i> | 5,182         | 4,839         |
|  |             | <b>15,941</b> | 15,792        |

## 19. CONTRACT LIABILITIES (continued)

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:

|  |             | 2019<br>HK\$M | 2018<br>HK\$M |
|--|-------------|---------------|---------------|
| Passenger revenue                      | <i>(i)</i>  | <b>8,530</b>  | 9,110         |
| Passenger fuel and insurance surcharge | <i>(i)</i>  | <b>1,682</b>  | 628           |
| Loyalty programme                      | <i>(ii)</i> | <b>2,157</b>  | 2,159         |

- (i) 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.
- (ii) 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.

## 20. SHARE CAPITAL

|                                     | 2019                 |               | 2018             |        |
|-------------------------------------|----------------------|---------------|------------------|--------|
|                                     | Number of shares     | HK\$M         | Number of shares | HK\$M  |
| Issued and fully paid               |                      |               |                  |        |
| At 1st January and at 31st December | <b>3,933,844,572</b> | <b>17,106</b> | 3,933,844,572    | 17,106 |

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year. At 31st December 2019, 3,933,844,572 shares were in issue (31st December 2018: 3,933,844,572 shares).

## 21. DIVIDENDS

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

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| First interim dividend declared and paid of HK\$0.18 per share<br>(2018: HK\$0.10 per share)            | <b>708</b>    | 393           |
| No second interim dividend proposed after the end of the reporting period<br>(2018: HK\$0.20 per share) | -             | 787           |
|   | <b>708</b>    | 1,180         |

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

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.20 per share (2018: HK\$0.05 per share) | <b>787</b>    | 197           |

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Financial Position

## 22. RESERVES

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Retained profit                                | 45,867        | 46,956        |
| Investment revaluation reserve (non-recycling) | (148)         | (181)         |
| Cash flow hedge reserve                        | 634           | 83            |
| Others   | (686)         | (28)          |
|  | <b>45,667</b> | <b>46,830</b> |

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 31 to the financial statements for details of the Group's hedging instruments.

Other reserves of the Group comprise exchange losses arising from revaluation of foreign investments which amounted to HK\$427 million (2018: exchange gains of HK\$45 million) and share of associates' other negative reserves of HK\$259 million (2018: HK\$73 million).

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

|  | 2019<br>HK\$M | 2018<br>HK\$M  |
|--|---------------|----------------|
| Revenue  | 916           | 202            |
| Fuel   | (100)         | (1,415)        |
| Net finance charge                                     | 15            | (153)          |
| Net gain/(loss) transferred to profit or loss (note 7) | <b>831</b>    | <b>(1,366)</b> |

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<br>HK\$M |
|-------------|----------------|
| 2020        | (9)            |
| 2021        | (172)          |
| 2022        | (259)          |
| 2023        | (172)          |
| 2024        | (24)           |
| Beyond 2024 | 2              |
|             | <b>(634)</b>   |

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.

## 22. RESERVES (continued)

|  | Retained<br>profit<br>HK\$M | Investment<br>revaluation<br>reserve<br>(recycling)<br>HK\$M | Investment<br>revaluation<br>reserve<br>(non-recycling)<br>HK\$M | Cash flow<br>hedge<br>reserve<br>HK\$M | Others<br>HK\$M | Total<br>HK\$M |
|--|-----------------------------|--|--|--|-----------------|----------------|
| <b>Company</b>                                 |                             |  |  |  |                 |                |
| Balance at 31st December 2018                  | 37,147                      | -  | (109)  | 92                                     | -               | 37,130         |
| Impact on initial application of HKFRS 16      | (950)                       | -  | -  | -                                      | -               | (950)          |
| Adjusted balance at 1st January 2019           | 36,197                      | -  | (109)  | 92                                     | -               | 36,180         |
| Profit for the year                            | 879                         | -  | -  | -                                      | -               | 879            |
| Other comprehensive income                     | 967                         | -  | -  | 554                                    | -               | 1,521          |
| <b>Total comprehensive income for the year</b> | <b>1,846</b>                | <b>-</b>   | <b>-</b>   | <b>554</b>                             | <b>-</b>        | <b>2,400</b>   |
| 2018 second interim dividend                   | (787)                       | -  | -  | -                                      | -               | (787)          |
| 2019 first interim dividend                    | (708)                       | -  | -  | -                                      | -               | (708)          |
| At 31st December 2019                          | 36,548                      | -  | (109)  | 646                                    | -               | 37,085         |
| Balance at 31st December 2017                  | 35,004                      | 505  | -  | (1,487)                                | (1)             | 34,021         |
| Impact on initial application of HKFRS 9       | 614                         | (505)  | (109)  | -                                      | -               | -              |
| Impact on initial application of HKFRS 15      | 491                         | -  | -  | -                                      | -               | 491            |
| Adjusted balance at 1st January 2018           | 36,109                      | -  | (109)  | (1,487)                                | (1)             | 34,512         |
| Profit for the year                            | 1,898                       | -  | -  | -                                      | -               | 1,898          |
| Other comprehensive income                     | (270)                       | -  | -  | 1,579                                  | 1               | 1,310          |
| <b>Total comprehensive income for the year</b> | <b>1,628</b>                | <b>-</b>   | <b>-</b>   | <b>1,579</b>                           | <b>1</b>        | <b>3,208</b>   |
| 2017 interim dividend                          | (197)                       | -  | -  | -                                      | -               | (197)          |
| 2018 first interim dividend                    | (393)                       | -  | -  | -                                      | -               | (393)          |
| At 31st December 2018                          | 37,147                      | -  | (109)  | 92                                     | -               | 37,130         |

Distributable reserves of the Company at 31st December 2019 amounted to HK\$36,548 million (2018: HK\$37,147 million), as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622).

The Group and the Company has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

# NOTES TO THE FINANCIAL STATEMENTS

## Statement of Cash Flows

### 23. RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| Operating profit   | 3,441         | 3,595         |
| Depreciation of property, plant and equipment  | 13,672        | 9,249         |
| Amortisation of intangible assets  | 550           | 553           |
| (Gain)/loss on disposal of property, plant and equipment, net  | (175)         | 82            |
| Loss/(gain) on disposal of intangible assets   | 9             | (101)         |
| Gain on deemed partial disposal of an associate  | (114)         | –             |
| Fair value gains on equity investments measured at fair value through profit or loss                   | (88)          | (43)          |
| (Gain)/loss transferred from cash flow hedge reserve and other items not involving cash flows          | (785)         | 1,691         |
| Decrease/(increase) in stock   | 16            | (313)         |
| Decrease/(increase) in trade debtors, other receivables and derivative financial assets                | 2,127         | (1,174)       |
| (Decrease)/increase in net amounts due to associates and other related companies                       | (70)          | 23            |
| Increase in trade creditors, other payables, derivative financial liabilities and deferred liabilities | 364           | 1,815         |
| Increase in contract liabilities   | 149           | 1,243         |
| Non-operating movements in debtors and creditors   | (638)         | 1,117         |
| Cash generated from operations   | <b>18,458</b> | 17,737        |

The Group has initially applied HKFRS 16 at 1st January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee were classified as operating activities in the consolidated statement of cash flows. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into interest element and capital element (see note 24 to the financial statements), the latter of which is classified as financing cash outflows. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

### 24. TOTAL CASH OUTFLOW FOR LEASES

The adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases (see accounting policy 1). The comparative amounts have not been restated.

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

|                             | 2019<br>HK\$M | 2018<br>HK\$M |
|-----------------------------|---------------|---------------|
| Within operating cash flows | 990           | 5,872         |
| Within investing cash flows | 2             | 2             |
| Within financing cash flows | 7,469         | 3,669         |
|                             | <b>8,461</b>  | 9,543         |

#### *Significant non-cash transaction for leases:*

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

## 25. ANALYSIS OF CASH AND CASH EQUIVALENTS

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Short-term deposits and bank balances (note 17) | 8,881         | 7,672         |
| Bank overdrafts - unsecured                     | –             | (19)          |
|   | <b>8,881</b>  | <b>7,653</b>  |

## 26. BUSINESS COMBINATION

Cathay Pacific acquired 100% of the voting equity interest of HK Express on 19th July 2019 for a total consideration of HK\$4,765 million, comprising (i) a cash consideration of HK\$1,802 million, and (ii) a non-cash consideration of HK\$2,963 million settled through the issue and novation of promissory loan notes.

The valuation of HK Express was determined following arm's length negotiation between the parties, based on the underlying value of HK Express and having regard to the trading multiples of comparable airlines. The goodwill arising on the acquisition of HK Express is principally attributable to improvements and synergistic benefits that Cathay Pacific foresees under full ownership given that the business models are largely complementary.

Established in 2004, HK Express began implementing its low-cost carrier ("LCC") strategy in 2013 and now provides scheduled air services to 28 destinations mainly in North Asia. Its current fleet comprises 24 aircraft (13 Airbus A320 aircraft and 11 Airbus A321 aircraft), with five Airbus A320 aircraft committed to be delivered. All aircraft are on leases with no purchase option.

The acquisition represents an attractive and practical way for the Group to support the long-term development and expansion of its aviation business, and to enhance its competitiveness.

There will be synergies with the Group arising from, among others, head office rationalisation, group procurement benefits (particularly lease terms), route optimisation and various cost savings from shared services.

The acquired business contributed revenue of HK\$1,893 million and net loss of HK\$246 million to the Group for the period from the acquisition date to 31st December 2019.

Acquisition-related costs of HK\$71 million that were not directly attributable to the issue of shares are included in other operating expenses in the consolidated statement of profit or loss and in operating cash flows in the consolidated statement of cash flows.

If the acquisition had occurred on 1st January 2019, the acquired business would have contributed pro-forma revenue of HK\$4,303 million and net loss of HK\$585 million to the Group for the year ended 31st December 2019. These amounts have been calculated using the subsidiaries' results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiaries, and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1st January 2019, together with the consequential tax effects.

Details of the purchase consideration and the net assets acquired are as follows:

|   | HK\$M        |
|---|--------------|
| Purchase consideration (refer to note 26(b) below): |              |
| – cash paid*  | 1,802        |
| – promissory loan notes issued                      | 2,963        |
| Total purchase consideration                        | <b>4,765</b> |

\* Included within the cash consideration is a claims escrow amount of HK\$245 million which is to be released, net of any warranty claims, upon the completion of the HK Express audited financial statements for 2019.

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of Cash Flows

#### 26. BUSINESS COMBINATION (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

|                                  | Fair value<br>HK\$M |
|----------------------------------|---------------------|
| Property, plant and equipment    | 4,833               |
| Intangible assets                | 20                  |
| Other long-term receivables      | 638                 |
| Deferred tax assets              | 231                 |
| Trade and other receivables      | 3,488               |
| Cash and cash equivalents        | 105                 |
| Long-term liabilities            | (5,078)             |
| Other long-term payables         | (909)               |
| Trade and other payables         | (1,561)             |
| Contract liabilities             | (957)               |
| Taxation                         | (33)                |
| Net identifiable assets acquired | 777                 |
| Add: goodwill                    | 3,988               |
| Total purchase consideration     | 4,765               |

There are no deemed material intangible assets requiring separate recognition, and there are no material contingent liabilities assumed. The goodwill, split as HK\$3,616 million allocated to the HK Express CGU and HK\$372 million allocated to the Cathay Pacific and Cathay Dragon CGU is principally attributable to the potential improvements and synergies arising from a combination of the businesses and is not deductible for tax purposes.

(a) Acquired receivables

The fair value of acquired trade debtors is HK\$75 million. The gross contractual amount for trade debtors due is HK\$75 million with no loss allowance recognised on acquisition.

(b) Purchase consideration – cash outflow

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries is as follows:

|  | HK\$M |
|--|-------|
| Cash consideration                         | 1,802 |
| Less: cash and cash equivalents acquired   | (105) |
| Net cash outflow from investing activities | 1,697 |

# NOTES TO THE FINANCIAL STATEMENTS

## Directors and Employees

### 27. 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  |   |                               |                                 | 2019<br>Total<br>HK\$'000 | 2018<br>Total<br>HK\$'000 |
|--|--|--------------------------------|--------------------------------------|---|---|-------------------------------|---------------------------------|---------------------------|---------------------------|
|  | Basic<br>salary/<br>Fees<br>(note i)<br>HK\$'000 | Bonus<br>(note ii)<br>HK\$'000 | Allowances<br>& benefits<br>HK\$'000 | Contributions<br>to retirement<br>schemes<br>HK\$'000 | Bonus<br>paid into<br>retirement<br>schemes<br>HK\$'000 | Other<br>benefits<br>HK\$'000 | Housing<br>benefits<br>HK\$'000 |                           |                           |
| <b>Executive Directors</b>                 |  |                                |                                      |   |   |                               |                                 |                           |                           |
| Healy, Patrick<br>(from November 2019)     | 125  | –                              | 11                                   | 84  | –   | –                             | 148                             | <b>368</b>                | –                         |
| Hogg, Rupert<br>(up to August 2019)        | 2,387  | 2,316                          | 245                                  | 1,529   | 814   | –                             | 3,591                           | <b>10,882</b>             | 9,059                     |
| Hughes, Gregory                            | 2,636  | 1,583                          | 986                                  | 1,769   | 759   | 270                           | 3,409                           | <b>11,412</b>             | 7,488                     |
| Lam, Ronald<br>(from August 2019)          | 1,105  | –                              | 397                                  | 373   | –   | 175                           | –                               | <b>2,050</b>              | –                         |
| Loo, Paul<br>(up to August 2019)           | 2,118  | 616                            | 1,119                                | 610   | –   | 217                           | –                               | <b>4,680</b>              | 4,796                     |
| Murray, Martin                             | 2,904  | 1,314                          | 892                                  | 1,949   | 709   | 171                           | 3,203                           | <b>11,142</b>             | 7,447                     |
| Slosar, John<br>(up to November 2019)      | 1,698  | –                              | –                                    | 15  | –   | 66                            | –                               | <b>1,779</b>              | 1,999                     |
| Tang, Augustus<br>(from August 2019)       | 1,407  | –                              | 696                                  | 493   | –   | –                             | –                               | <b>2,596</b>              | –                         |
| <b>Non-Executive Directors</b>             |  |                                |                                      |   |   |                               |                                 |                           |                           |
| Cai, Jianjiang                             | 575  | –                              | –                                    | –   | –   | –                             | –                               | <b>575</b>                | 575                       |
| Chu, Ivan                                  | –  | –                              | –                                    | –   | –   | –                             | –                               | –                         | –                         |
| Low, Michelle                              | –  | –                              | –                                    | –   | –   | –                             | –                               | –                         | –                         |
| Song, Zhiyong                              | 575  | –                              | –                                    | –   | –   | –                             | –                               | <b>575</b>                | 575                       |
| Swire, Merlin                              | –  | –                              | –                                    | –   | –   | –                             | –                               | –                         | –                         |
| Swire, Samuel                              | –  | –                              | –                                    | –   | –   | –                             | –                               | –                         | –                         |
| Xiao, Feng                                 | 854  | –                              | –                                    | –   | –   | –                             | –                               | <b>854</b>                | 761                       |
| Zhao, Xiaohang                             | 575  | –                              | –                                    | –   | –   | –                             | –                               | <b>575</b>                | 575                       |
| <b>Independent Non-Executive Directors</b> |  |                                |                                      |   |   |                               |                                 |                           |                           |
| Chan, Bernard<br>(from December 2018)      | 635  | –                              | –                                    | –   | –   | –                             | –                               | <b>635</b>                | 53                        |
| Harrison, John                             | 906  | –                              | –                                    | –   | –   | –                             | –                               | <b>906</b>                | 761                       |
| Lee, Irene<br>(up to May 2019)             | 342  | –                              | –                                    | –   | –   | –                             | –                               | <b>342</b>                | 926                       |
| Milton, Robert<br>(from May 2019)          | 616  | –                              | –                                    | –   | –   | –                             | –                               | <b>616</b>                | –                         |
| Tung, Andrew                               | 814  | –                              | –                                    | –   | –   | –                             | –                               | <b>814</b>                | 646                       |
| Wong, Peter<br>(up to November 2018)       | –  | –                              | –                                    | –   | –   | –                             | –                               | –                         | 698                       |
| <b>2019 Total</b>                          | <b>20,272</b>                                    | <b>5,829</b>                   | <b>4,346</b>                         | <b>6,822</b>  | <b>2,282</b>  | <b>899</b>                    | <b>10,351</b>                   | <b>50,801</b>             |                           |
| 2018 Total                                 | 18,427   | –                              | 3,786                                | 2,247   | –   | 443                           | 11,456                          |                           | 36,359                    |

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

(ii) Management bonus is related to services for 2018 and was paid in 2019. Other discretionary bonuses were paid in 2018 or 2019.

(iii) 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

#### 27. DIRECTORS' REMUNERATION (continued)

- (b) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2019 and 2018 are as follows:

|                        | 2019     | 2018 |
|------------------------|----------|------|
| Number of individuals: |          |      |
| Executive Directors    | <b>3</b> | 3    |
| Senior managers        | <b>2</b> | 2    |
|                        | <b>5</b> | 5    |

Details of their emoluments are as follows:

|                   | Cash                     |                   |                                      | Non-cash  |   |                               |                                 | 2019<br>Total<br>HK\$'000 | 2018<br>Total<br>HK\$'000 |
|-------------------|--------------------------|-------------------|--------------------------------------|---|---|-------------------------------|---------------------------------|---------------------------|---------------------------|
|                   | Basic salary<br>HK\$'000 | Bonus<br>HK\$'000 | Allowances<br>& benefits<br>HK\$'000 | Contributions<br>to retirement<br>schemes<br>HK\$'000 | Bonus<br>paid into<br>retirement<br>schemes<br>HK\$'000 | Other<br>benefits<br>HK\$'000 | Housing<br>benefits<br>HK\$'000 |                           |                           |
| <b>2019 Total</b> | <b>11,995</b>            | <b>7,137</b>      | <b>7,492</b>                         | <b>6,143</b>  | <b>3,544</b>  | <b>824</b>                    | <b>10,203</b>                   | <b>47,338</b>             |                           |
| 2018 Total        | 12,243                   | 1,433             | 7,842                                | 2,693   | 962   | 663                           | 11,064                          |                           | 36,900                    |

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\$                    | 2019     | 2018 |
|-------------------------|----------|------|
| 6,000,001 – 6,500,000   | –        | 1    |
| 6,500,001 – 7,000,000   | <b>1</b> | 1    |
| 7,000,001 – 7,500,000   | <b>1</b> | 2    |
| 9,000,001 – 9,500,000   | –        | 1    |
| 10,500,001 – 11,000,000 | <b>1</b> | –    |
| 11,000,001 – 11,500,000 | <b>2</b> | –    |
|                         | <b>5</b> | 5    |

#### 28. 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\$                    | 2019      |               |               | 2018     |              |             |
|-------------------------|-----------|---------------|---------------|----------|--------------|-------------|
|                         | Director  | Flight staff  | Other staff   | Director | Flight staff | Other staff |
| 0 – 1,000,000           | <b>14</b> | <b>14,897</b> | <b>10,467</b> | 13       | 14,107       | 10,579      |
| 1,000,001 – 1,500,000   | –         | <b>622</b>    | <b>294</b>    | –        | 585          | 300         |
| 1,500,001 – 2,000,000   | <b>1</b>  | <b>1,010</b>  | <b>89</b>     | 1        | 1,023        | 96          |
| 2,000,001 – 2,500,000   | <b>1</b>  | <b>398</b>    | <b>65</b>     | –        | 438          | 81          |
| 2,500,001 – 3,000,000   | <b>1</b>  | <b>519</b>    | <b>19</b>     | –        | 534          | 21          |
| 3,000,001 – 3,500,000   | –         | <b>437</b>    | <b>9</b>      | –        | 437          | 7           |
| 3,500,001 – 4,000,000   | –         | <b>248</b>    | <b>5</b>      | –        | 271          | 4           |
| 4,000,001 – 4,500,000   | –         | <b>94</b>     | <b>2</b>      | –        | 108          | –           |
| 4,500,001 – 5,000,000   | <b>1</b>  | <b>27</b>     | –             | 1        | 32           | 1           |
| 5,000,001 – 5,500,000   | –         | <b>4</b>      | <b>2</b>      | –        | 6            | –           |
| 5,500,001 – 6,000,000   | –         | <b>1</b>      | <b>1</b>      | –        | 2            | –           |
| 6,000,001 – 6,500,000   | –         | –             | <b>1</b>      | –        | –            | 1           |
| 6,500,001 – 7,000,000   | –         | –             | <b>1</b>      | –        | –            | 1           |
| 7,000,001 – 7,500,000   | –         | –             | <b>1</b>      | 2        | –            | –           |
| 9,000,001 – 9,500,000   | –         | –             | –             | 1        | –            | –           |
| 10,500,001 – 11,000,000 | <b>1</b>  | –             | –             | –        | –            | –           |
| 11,000,001 – 11,500,000 | <b>2</b>  | –             | –             | –        | –            | –           |
|                         | <b>21</b> | <b>18,257</b> | <b>10,956</b> | 18       | 17,543       | 11,091      |

# NOTES TO THE FINANCIAL STATEMENTS

## Related Party Transactions

### 29. RELATED PARTY TRANSACTIONS

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

|  | 2019                |                                   | 2018                |                                   |
|--|---------------------|-----------------------------------|---------------------|-----------------------------------|
|  | Associates<br>HK\$M | Other related<br>parties<br>HK\$M | Associates<br>HK\$M | Other related<br>parties<br>HK\$M |
| Revenue                                | 412                 | 23                                | 515                 | 19                                |
| Aircraft maintenance                   | 1,264               | 2,511                             | 1,212               | 2,992                             |
| Other operating expenses               | 775                 | 308                               | 797                 | 287                               |
| Dividend income                        | 394                 | 48                                | 470                 | 41                                |
| Finance income                         | 11                  | –                                 | 35                  | –                                 |
| Property, plant and equipment purchase | –                   | 128                               | –                   | 43                                |
| Lease payments                         | –                   | 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 three to nine 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. Upon adoption of HKFRS 16 on 1st January 2019, the Group recognised the right-of-use assets and lease liabilities of HK\$554 million and HK\$570 million respectively. For the year ended 31st December 2019, lease payments of HK\$100 million were paid. The balances of right-of-use assets and lease liabilities as at 31st December 2019 were HK\$512 million and HK\$535 million respectively.

The lease payments are included in continuing connected transactions in note 29(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 2019 totalled HK\$3,947 million (2018: HK\$4,227 million). The amounts receivable from the HAECO group for the year ended 31st December 2019 totalled HK\$34 million (2018: HK\$23 million).

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

- (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 2019 totalled HK\$288 million (2018: HK\$300 million). The amounts receivable from the Air China group for the year ended 31st December 2019 totalled HK\$377 million (2018: HK\$495 million).

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

## NOTES TO THE FINANCIAL STATEMENTS

### Related Party Transactions

#### 29. RELATED PARTY TRANSACTIONS (continued)

- (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 2019, service fees of HK\$25 million (2018: HK\$51 million) were paid and expenses of HK\$204 million (2018: HK\$154 million) were reimbursed at cost.

As directors and/or employees of the Swire group, Patrick Healy, Gregory Hughes, Ronald Lam, Michelle Low, Martin Murray, Merlin Swire, Samuel Swire and Augustus Tang are, and Zhang Zhuo Ping will be, interested in the JSSHK Services Agreement. Merlin Swire and Samuel Swire are also so interested as shareholders, directors and employees of the Swire group. Rupert Hogg and Paul Loo were so interested as directors and employees of the Swire group until their resignation with effect from 19th August 2019. John Slosar was so interested as a director and an employee of the Swire group until his resignation with effect from the conclusion of the Company's board meeting held on 6th November 2019. Ivan Chu is interested as a director and an employee of the Swire group until his resignation with effect from 14th April 2020.

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 2019 are disclosed in notes 16 and 18 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 2019 are disclosed in note 30(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 27 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## Supplementary Information

### 30. CAPITAL COMMITMENTS AND CONTINGENCIES

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

|                                   | 2019<br>HK\$M | 2018<br>HK\$M |
|-----------------------------------|---------------|---------------|
| Authorised and contracted for     | 62,524        | 73,896        |
| Authorised but not contracted for | 3,189         | 2,579         |
|                                   | <b>65,713</b> | <b>76,475</b> |

Operating lease commitments at 31st December 2018 are shown in note 8(b) to the financial statements.

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

|            | 2019<br>HK\$M | 2018<br>HK\$M |
|------------|---------------|---------------|
| Associates | 1,430         | 2,473         |

- (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 19 on page 137.

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

#### 31. 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 a hedge do not expose the Group to market risk since any change in their market value will be offset by a compensating change in the market value of the hedged items. Exposure to foreign exchange rates, interest rates and jet fuel prices movements are regularly reviewed and positions are amended in compliance with internal guidelines and limits.

##### (a) Credit risk

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

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 30(b) to the financial statements. Collateral and guarantees received in respect of credit terms granted at 31st December 2019 totalled HK\$875 million (2018: HK\$1,167 million).

The movement in the expected credit loss allowance in respect of trade debtors during the year is set out in note 16 to the financial statements.

##### (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.

### 31. FINANCIAL RISK MANAGEMENT (continued)

At the end of the reporting period the Group held liquid funds (note 17 to the financial statements) of HK\$14,864 million (2018: HK\$15,315 million) that is available for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Group treasury function also maintains funding flexibility through available committed and uncommitted credit facilities.

#### (i) Financial arrangements

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

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Liquid funds (note 17)                              | 14,864        | 15,315        |
| Less amounts pledged as part of long-term financing |               |               |
| – debt securities listed outside Hong Kong          | (5)           | (5)           |
| – bank deposits                                     | (137)         | (160)         |
| Committed undrawn facilities                        | 5,289         | 4,680         |
| Available unrestricted liquidity to the Group       | 20,011        | 19,830        |
|   | 2019<br>HK\$M | 2018<br>HK\$M |
| Uncommitted bank overdraft facilities               | 330           | 332           |
| Other uncommitted bank facilities                   | 100           | 1,588         |
|   | 430           | 1,920         |

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 2018, except for the application of HKFRS 16 from 1st January 2019. Under the HKFRS 16 transition methods chosen, comparative information in 2018 is not restated. The undiscounted payment profile of financial liabilities is outlined as follows:

|                                       | 2019                        |   |   |                              | Total<br>HK\$M |
|---------------------------------------|-----------------------------|---|---|------------------------------|----------------|
|                                       | Within<br>one year<br>HK\$M | After one<br>year but<br>within two<br>years<br>HK\$M | After two<br>years but<br>within five<br>years<br>HK\$M | After five<br>years<br>HK\$M |                |
| <b>Group</b>                          |                             |   |   |                              |                |
| Long-term loans                       | (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)      |

## NOTES TO THE FINANCIAL STATEMENTS

### Supplementary Information

#### 31. FINANCIAL RISK MANAGEMENT (continued)

|                                       | 2018                        |   |   |                              | Total<br>HK\$M   |
|---------------------------------------|-----------------------------|---|---|------------------------------|------------------|
|                                       | Within one<br>year<br>HK\$M | After one<br>year but<br>within two<br>years<br>HK\$M | After two<br>years but<br>within five<br>years<br>HK\$M | After five<br>years<br>HK\$M |                  |
| <b>Group</b>                          |                             |   |   |                              |                  |
| Long-term loans                       | (11,370)                    | (12,524)  | (20,273)  | (13,129)                     | (57,296)         |
| Obligations under finance leases      | (4,604)                     | (3,637)   | (11,059)  | (6,651)                      | (25,951)         |
| Other long-term payables              | –                           | (614)   | (2,272)   | (449)                        | (3,335)          |
| Trade and other payables              | (16,428)                    | –   | –   | –                            | (16,428)         |
| Derivative financial liabilities, net | (1,212)                     | (724)   | (12)  | (7)                          | (1,955)          |
| <b>Total</b>                          | <b>(33,614)</b>             | <b>(17,499)</b>                                       | <b>(33,616)</b>   | <b>(20,236)</b>              | <b>(104,965)</b> |

#### (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 financial commitments 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:

|  | 2019<br>HK\$M | 2018<br>HK\$M |
|--|---------------|---------------|
| <b>Currency derivative contracts – outgoing currencies</b> |               |               |
| Renminbi   | <b>4,923</b>  | 6,204         |
| Euros  | <b>1,652</b>  | 1,371         |
| Australian dollars   | <b>1,467</b>  | 1,556         |
| New Taiwan dollars   | <b>2,347</b>  | 2,405         |
| Japanese yen   | <b>1,168</b>  | 975           |
| Pound sterling   | <b>1,525</b>  | 1,195         |
| Others   | <b>3,263</b>  | 3,516         |
| <b>Foreign currency borrowings</b>                         |               |               |
| Japanese yen   | <b>5,071</b>  | 5,324         |
| Singapore dollars  | <b>982</b>    | 974           |
| Others   | <b>33</b>     | 33            |

## 31. FINANCIAL RISK MANAGEMENT (continued)

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| <b>Carrying amount of currency derivative contracts</b> |               |               |
| Asset   | <b>181</b>    | 506           |
| Liability   | <b>(219)</b>  | (104)         |

Forward exchange contract assets are included in the "Other long-term receivables and investments" (note 11) and "Trade and other receivables" (note 16), and forward exchange contract liabilities are included in the "Other long-term payables" (note 13) and "Trade and other payables" (note 18) 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 two years from the reporting date and have an average forward exchange rate between the respective foreign currencies and United States dollars as follows:

|                    | 2019<br>USD to | 2018<br>USD to |
|--------------------|----------------|----------------|
| Renminbi           | <b>7.00</b>    | 6.80           |
| Euros              | <b>0.85</b>    | 0.83           |
| Australian dollars | <b>1.42</b>    | 1.31           |
| New Taiwan dollars | <b>29.85</b>   | 29.30          |
| Japanese yen       | <b>105.59</b>  | 107.14         |
| Pound sterling     | <b>0.77</b>    | 0.74           |

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. Correspondingly, the hedged item is measured based on the forward exchange rate.

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.

## NOTES TO THE FINANCIAL STATEMENTS

### Supplementary Information

#### 31. 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:

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Balance at 1st January  | 1,688         | 1,153         |
| Effective portion of the cash flow hedge recognised in other comprehensive income | 146           | 781           |
| Amounts reclassified to profit or loss*   | (916)         | (202)         |
| Related tax   | 86            | (44)          |
| Balance at 31st December**  | 1,004         | 1,688         |
| Change in fair value of the derivative instruments during the year                | 146           | 781           |
| Hedge ineffectiveness recognised in profit or loss                                | -             | -             |
| Effective portion of the cash flow hedge recognised in other comprehensive income | 146           | 781           |

\* Amounts reclassified to profit or loss are recognised in the "Passenger services revenue" and "Cargo services revenue" line items in the consolidated statement of profit or loss.

\*\* At 31st December 2019, the Group had HK\$584 million (net of deferred tax) in the hedging reserve from discontinued hedges (2018: HK\$764 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 2019 are primarily United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen (2018: 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:

|  | 2019         |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
|  | USD<br>HK\$M | EUR<br>HK\$M | AUD<br>HK\$M | SGD<br>HK\$M | RMB<br>HK\$M | JPY<br>HK\$M |
| <b>Group</b>                           |              |              |              |              |              |              |
| 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           |
| Long-term loans                        | (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)        |
| Currency derivatives at notional value | 20,508       | (237)        | (1,467)      | 277          | (4,923)      | (1,168)      |
| Net exposure                           | (39,233)     | (1,568)      | (1,461)      | (723)        | (4,322)      | (6,191)      |

## 31. FINANCIAL RISK MANAGEMENT (continued)

| Group                                  | 2018         |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
|  | USD<br>HK\$M | EUR<br>HK\$M | AUD<br>HK\$M | SGD<br>HK\$M | RMB<br>HK\$M | JPY<br>HK\$M |
| Loans due from an associate            | 293          | –            | –            | –            | –            | –            |
| Trade debtors and other receivables    | 5,403        | 499          | 145          | 33           | 801          | 356          |
| Liquid funds                           | 11,547       | 128          | 26           | 27           | 668          | 26           |
| Long-term loans                        | (35,640)     | –            | –            | (974)        | –            | (1,313)      |
| Obligations under finance leases       | (16,942)     | (1,599)      | –            | –            | –            | (4,011)      |
| Trade creditors and other payables     | (6,985)      | (561)        | (131)        | (69)         | (567)        | (203)        |
| Currency derivatives at notional value | 28,954       | (69)         | (1,556)      | (93)         | (6,204)      | (975)        |
| Net exposure                           | (13,370)     | (1,602)      | (1,516)      | (1,076)      | (5,302)      | (6,120)      |

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

*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 2018, except for the application of HKFRS 16 from 1st January 2019. Under the HKFRS 16 transition methods chosen, comparative information in 2018 is not restated.

|                         | 2019  |  |
|-------------------------|---|--|
|                         | Net increase/(decrease)<br>in profit or loss<br>HK\$M | Net increase/(decrease) in<br>other equity components<br>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)  |

## NOTES TO THE FINANCIAL STATEMENTS

### Supplementary Information

#### 31. FINANCIAL RISK MANAGEMENT (continued)

|                         | 2018   |   |
|-------------------------|--|---|
|                         | Net increase/(decrease) in profit or loss<br>HK\$M | Net increase/(decrease) in other equity components<br>HK\$M |
| United States dollars*  | 2,026  | (836)   |
| Euros                   | 3  | 60  |
| Australian dollars      | (2)  | 65  |
| Singapore dollars       | –  | 53  |
| Renminbi                | (43)   | 261   |
| Japanese yen            | (8)  | 309   |
| Net increase/(decrease) | 1,976  | (88)  |

\* 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.

#### 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:

|                        | 2019<br>HK\$M | 2018<br>HK\$M |
|------------------------|---------------|---------------|
| <b>Notional amount</b> |               |               |
| United States dollars  | 21,627        | 28,175        |
| Hong Kong dollars      | 1,395         | 4,118         |
| Others                 | 79            | 156           |
|                        |               |               |
|                        | 2019<br>HK\$M | 2018<br>HK\$M |
| <b>Carrying amount</b> |               |               |
| Asset                  | 46            | 375           |
| Liability              | (273)         | (101)         |

Interest rate swap assets are included in the "Other long-term receivables and investments" (note 11) and "Trade and other receivables" (note 16), and interest rate swap liabilities are included in the "Other long-term payables" (note 13) and "Trade and other payables" (note 18) line items in the consolidated statement of financial position respectively.

The swaps will mature over the next eight years matching the maturity of the related financing liabilities and have fixed swap rates ranging from 1.60% to 4.29% (2018: 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.

### 31. FINANCIAL RISK MANAGEMENT (continued)

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:

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Balance at 1st January  | 11            | (210)         |
| Effective portion of the cash flow hedge recognised in other comprehensive income | (353)         | 101           |
| Amounts reclassified to profit or loss*   | (15)          | 153           |
| Related tax   | 38            | (33)          |
| Balance at 31st December**  | (319)         | 11            |
| Change in fair value of the derivative instruments during the year                | (353)         | 101           |
| Hedge ineffectiveness recognised in profit or loss                                | -             | -             |
| Effective portion of the cash flow hedge recognised in other comprehensive income | (353)         | 101           |

\* Amounts reclassified to profit or loss are recognised in the "Finance charges" line item in the consolidated statement of profit or loss.

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

#### Interest rate profile

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

|                                  | 2019<br>HK\$M | 2018<br>HK\$M |
|----------------------------------|---------------|---------------|
| <b>Fixed rate instruments</b>    |               |               |
| Long-term loans                  | (4,399)       | (1,778)       |
| Lease liabilities                | (21,889)      | (5,308)       |
| Interest rate and currency swaps | (21,862)      | (31,190)      |
| Net exposure                     | (48,150)      | (38,276)      |
|                                  | 2019<br>HK\$M | 2018<br>HK\$M |
| <b>Variable rate instruments</b> |               |               |
| Loan due from an associate       | 291           | 293           |
| Liquid funds                     | 14,864        | 15,315        |
| Long-term loans                  | (52,369)      | (48,908)      |
| Lease liabilities                | (18,603)      | (17,883)      |
| Interest rate and currency swaps | 23,222        | 32,630        |
| Net exposure                     | (32,595)      | (18,553)      |

## NOTES TO THE FINANCIAL STATEMENTS

### Supplementary Information

#### 31. FINANCIAL RISK MANAGEMENT (continued)

##### *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 2018, except for the application of HKFRS 16 from 1st January 2019. Under the HKFRS 16 transition methods chosen, comparative information in 2018 is not restated.

|                           | 2019                                    |  | 2018                                    |  |
|---------------------------|---|--|---|--|
|                           | Net decrease in profit or loss<br>HK\$M | Net increase in other equity components<br>HK\$M | Net decrease in profit or loss<br>HK\$M | Net increase in other equity components<br>HK\$M |
| Variable rate instruments | (135)                                   | 57   | (124)                                   | 97   |

##### (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.

##### *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:

|                        |        | 2019              | 2018       |
|------------------------|--------|-------------------|------------|
| <b>Notional amount</b> | Barrel | <b>28,897,164</b> | 23,286,402 |
| <b>Carrying amount</b> |        |                   |            |
| Asset                  | HK\$M  | <b>368</b>        | –          |
| Liability              | HK\$M  | <b>(425)</b>      | (1,854)    |

Crude oil forward contract assets are included in the "Other long-term receivables and investments" (note 11) and "Trade and other receivables" (note 16), and crude oil forward contract liabilities are included in the "Other long-term payables" (note 13) and "Trade and other payables" (note 18) line items in the consolidated statement of financial position respectively.

The crude oil forward contracts have a maturity of less than two years (2018: two years) from the reporting date and have an average strike price (Brent, US\$/barrel) as follows:

|                                     | 2019<br>US\$/barrel | 2018<br>US\$/barrel |
|-------------------------------------|---------------------|---------------------|
| Within one year                     | <b>63.75</b>        | 65.39               |
| After one year but within two years | <b>58.48</b>        | 67.26               |

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 entered into after 1st January 2018 following the adoption of HKFRS 9 "Financial Instruments".

### 31. FINANCIAL RISK MANAGEMENT (continued)

For the highly probable forecast fuel purchase transactions on or after 1st January 2018, 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. Prior to 1st January 2018, the entire price risk of jet fuel was designated as hedged item.

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

|   | 2019<br>HK\$M  | 2018<br>HK\$M |
|---|----------------|---------------|
| Balance at 1st January  | <b>(1,616)</b> | (2,446)       |
| Effective portion of the cash flow hedge recognised in other comprehensive income | <b>1,662</b>   | (454)         |
| Amounts reclassified to profit or loss*   | <b>100</b>     | 1,415         |
| Related tax   | <b>(197)</b>   | (131)         |
| Balance at 31st December**  | <b>(51)</b>    | (1,616)       |
| Change in fair value of the derivative instruments during the year                | <b>1,662</b>   | (432)         |
| Hedge ineffectiveness recognised in profit or loss***                             | -              | (22)          |
| Effective portion of the cash flow hedge recognised in other comprehensive income | <b>1,662</b>   | (454)         |

\* Amounts reclassified to profit or loss are recognised in the "Fuel, including hedging losses" line item in the consolidated statement of profit or loss.

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

\*\*\* Hedge ineffectiveness is recognised in the "Others" line item in the consolidated statement of profit or loss.

#### 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 2018.

|                                  | 2019                                       |   | 2018                                       |   |
|----------------------------------|--|---|--|---|
|                                  | Net increase<br>in profit or loss<br>HK\$M | Net increase/<br>(decrease) in<br>other equity<br>components<br>HK\$M | Net increase<br>in profit or loss<br>HK\$M | Net increase/<br>(decrease) in<br>other equity<br>components<br>HK\$M |
| Increase in jet fuel price by 5% | -  | <b>620</b>  | 2  | 433   |
| Decrease in jet fuel price by 5% | -  | <b>(620)</b>  | 21   | (456)   |

## NOTES TO THE FINANCIAL STATEMENTS

### Supplementary Information

#### 31. FINANCIAL RISK MANAGEMENT (continued)

##### (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 2019 and 2018 except for the following financial instruments, for which their carrying amounts and fair values are shown below:

|                 | 2019                     |                     | 2018                     |                     |
|-----------------|--------------------------|---------------------|--------------------------|---------------------|
|                 | Carrying amount<br>HK\$M | Fair value<br>HK\$M | Carrying amount<br>HK\$M | Fair value<br>HK\$M |
| Long-term loans | <b>(56,768)</b>          | <b>(58,721)</b>     | (50,686)                 | (52,496)            |

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

##### (e) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 31st December 2019 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.

|   | 2019             |                  |                  |                | 2018             |                  |                  |                |
|---|------------------|------------------|------------------|----------------|------------------|------------------|------------------|----------------|
|   | Level 1<br>HK\$M | Level 2<br>HK\$M | Level 3<br>HK\$M | Total<br>HK\$M | Level 1<br>HK\$M | Level 2<br>HK\$M | Level 3<br>HK\$M | Total<br>HK\$M |
| <b>Recurring fair value measurement</b>                               |                  |                  |                  |                |                  |                  |                  |                |
| <b>Assets</b>   |                  |                  |                  |                |                  |                  |                  |                |
| Unlisted equity Investments at fair value                             | -                | -                | 886              | 886            | -                | -                | 765              | 765            |
| Liquid funds  |                  |                  |                  |                |                  |                  |                  |                |
| - funds with investment managers                                      | -                | 5,079            | -                | 5,079          | -                | 4,963            | -                | 4,963          |
| - other liquid investments  | -                | 5                | -                | 5              | -                | 5                | -                | 5              |
| Derivative financial assets   | -                | 2,010            | -                | 2,010          | -                | 2,359            | -                | 2,359          |
|   | -                | 7,094            | 886              | 7,980          | -                | 7,327            | 765              | 8,092          |
| <b>Liabilities</b>  |                  |                  |                  |                |                  |                  |                  |                |
| Financial liabilities designated at fair value through profit or loss | -                | (1,415)          | -                | (1,415)        | -                | (1,567)          | -                | (1,567)        |
| Derivative financial liabilities                                      | -                | (917)            | -                | (917)          | -                | (2,059)          | -                | (2,059)        |
|   | -                | (2,332)          | -                | (2,332)        | -                | (3,626)          | -                | (3,626)        |

### 31. FINANCIAL RISK MANAGEMENT (continued)

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

The fair value of the unlisted 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 2019 and 2018, 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                   | 2019: 7.0-8.5%<br>(2018: 8.5%) | The higher the discount rate, the lower the fair value | 2019: +/- 0.5%<br>(2018: +/- 0.5%) | 2019: (28)/30<br>(2018: (17)/18)                 |

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

|   | 2019<br>HK\$M | 2018<br>HK\$M |
|---|---------------|---------------|
| Unlisted equity investments at fair value                                     |               |               |
| At 1st January  | 765           | 722           |
| Net unrealised gains recognised in other comprehensive income during the year | 33            | –             |
| Fair value gains recognised in profit or loss during the year                 | 88            | 43            |
| At 31st December  | 886           | 765           |

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

|                                  | 2019   |  |                     |
|----------------------------------|--|--|---------------------|
|                                  | Amount of financial assets/(liabilities) presented in the statement of financial position<br>HK\$M | Financial instruments not offset in the statement of financial position<br>HK\$M | Net amount<br>HK\$M |
| <b>Group</b>                     |  |  |                     |
| Derivative financial assets      | 2,010  | (493)  | 1,517               |
| Derivative financial liabilities | (917)  | 493  | (424)               |
|                                  | 1,093  | –  | 1,093               |

## NOTES TO THE FINANCIAL STATEMENTS

### Supplementary Information

#### 31. FINANCIAL RISK MANAGEMENT (continued)

|                                  | 2018   |  |                     |
|----------------------------------|--|--|---------------------|
|                                  | Amount of financial assets/(liabilities) presented in the statement of financial position<br>HK\$M | Financial instruments not offset in the statement of financial position<br>HK\$M | Net amount<br>HK\$M |
| <b>Group</b>                     |  |  |                     |
| Derivative financial assets      | 2,359  | (479)  | 1,880               |
| Derivative financial liabilities | (2,059)  | 479  | (1,580)             |
|                                  | 300  | –  | 300                 |

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

#### 32. CAPITAL RISK MANAGEMENT

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

The Group regards the net debt/equity ratio as the key measurement of capital risk management. The definition of net debt/equity ratio is shown on page 143 and a ten year history is included on pages 138 and 139 of the annual report.

## 33. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

|  | Note | 2019<br>HK\$M   | 2018<br>HK\$M   | 2019<br>US\$M  | 2018<br>US\$M  |
|--|------|-----------------|-----------------|----------------|----------------|
| <b>ASSETS AND LIABILITIES</b>                |      |                 |                 |                |                |
| <b>Non-current assets and liabilities</b>    |      |                 |                 |                |                |
| Property, plant and equipment                |      | 114,302         | 99,520          | 14,654         | 12,759         |
| Intangible assets                            |      | 3,475           | 3,503           | 446            | 449            |
| Investments in subsidiaries                  |      | 36,483          | 34,815          | 4,677          | 4,463          |
| Investments in associates                    |      | 10,797          | 10,798          | 1,384          | 1,384          |
| Other long-term receivables and investments  |      | 3,104           | 2,838           | 398            | 364            |
|  |      | 168,161         | 151,474         | 21,559         | 19,419         |
| Long-term liabilities                        |      | (69,960)        | (59,935)        | (8,969)        | (7,684)        |
| Other long-term payables                     |      | (2,638)         | (3,101)         | (338)          | (397)          |
| Deferred tax liabilities                     |      | (12,207)        | (11,814)        | (1,565)        | (1,515)        |
|  |      | (84,805)        | (74,850)        | (10,872)       | (9,596)        |
| <b>Net non-current assets</b>                |      | <b>83,356</b>   | <b>76,624</b>   | <b>10,687</b>  | <b>9,823</b>   |
| <b>Current assets and liabilities</b>        |      |                 |                 |                |                |
| Stock  |      | 1,588           | 1,626           | 204            | 208            |
| Trade and other receivables                  |      | 9,151           | 11,050          | 1,173          | 1,417          |
| Liquid funds                                 |      | 9,042           | 9,150           | 1,159          | 1,173          |
|  |      | 19,781          | 21,826          | 2,536          | 2,798          |
| Current portion of long-term liabilities     |      | (19,424)        | (13,632)        | (2,490)        | (1,748)        |
| Trade and other payables                     |      | (13,165)        | (14,182)        | (1,688)        | (1,818)        |
| Contract liabilities                         |      | (14,914)        | (15,498)        | (1,912)        | (1,987)        |
| Bank overdrafts – unsecured                  |      | –               | (19)            | –              | (2)            |
| Taxation                                     |      | (1,443)         | (883)           | (185)          | (113)          |
|  |      | (48,946)        | (44,214)        | (6,275)        | (5,668)        |
| <b>Net current liabilities</b>               |      | <b>(29,165)</b> | <b>(22,388)</b> | <b>(3,739)</b> | <b>(2,870)</b> |
| <b>Total assets less current liabilities</b> |      | <b>138,996</b>  | <b>129,086</b>  | <b>17,820</b>  | <b>16,549</b>  |
| <b>Net assets</b>                            |      | <b>54,191</b>   | <b>54,236</b>   | <b>6,948</b>   | <b>6,953</b>   |
| <b>CAPITAL AND RESERVES</b>                  |      |                 |                 |                |                |
| Share capital                                | 20   | 17,106          | 17,106          | 2,193          | 2,193          |
| Reserves                                     | 22   | 37,085          | 37,130          | 4,755          | 4,760          |
| <b>Total equity</b>                          |      | <b>54,191</b>   | <b>54,236</b>   | <b>6,948</b>   | <b>6,953</b>   |

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 Company has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See accounting policy 1.

**Patrick Healy**  
Director  
Hong Kong, 11th March 2020

**John Harrison**  
Director

## NOTES TO THE FINANCIAL STATEMENTS

### Supplementary Information

#### 34. IMPACT OF FURTHER NEW ACCOUNTING STANDARDS

The HKICPA has issued a number of amendments and a new standard, HKFRS 17 "Insurance Contracts", which become effective for accounting periods beginning on or after 1st January 2020 and which are not adopted in the financial statements. These developments include the following which may be relevant to the Group.

- Amendments to HKFRS 3 "Definition of a Business"
- Amendments to HKAS 1 and HKAS 8 "Definition of Material"

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.

#### 35. COMPARATIVE FIGURES

In the consolidated and company-level statement of financial position, "unearned transportation revenue" has been renamed as "contract liabilities" in accordance with HKFRS 15. Accordingly, passenger fuel and insurance surcharge received in advance of carriage, previously included in "other payables" is presented under "contract liabilities". Certain comparative figures have been adjusted to conform to current year's presentation.

#### 36. EVENT AFTER THE REPORTING PERIOD

The outbreak of COVID-19 since January 2020 has resulted in a challenging operational environment, and will adversely impact the Group's financial performance and liquidity position. Travel demand has dropped substantially and the Group has taken a number of short-term measures in response, including aggressive reduction of passenger capacity measured in Available Seat Kilometres (ASK) by approximately 30% for February and 65% for March and April, with frequencies cut approximately 65% and 75% over the same periods. Substantial passenger capacity and frequency reduction is also likely for May as we continue to monitor and match market demand. As at the end of February, passenger load factor had declined to approximately 50% and year-on-year yield had also fallen significantly. It is difficult to predict when these conditions will improve. However, the Group is expected to incur a substantial loss for the first half of 2020. The Group's available unrestricted liquidity as at 31st December 2019 was HK\$20.0 billion. The Directors believe that with the cost saving measures being taken, the Group's strong vendor relationships, as well as the Group's liquidity position and availability of sources of funds, the Group will remain a going concern.

# PRINCIPAL SUBSIDIARIES AND ASSOCIATES

at 31st December 2019

## SUBSIDIARIES

|   | Place of incorporation/<br>establishment<br>and operation | Principal activities  | Percentage of<br>issued capital<br>owned | Issued and paid up share<br>capital and<br>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<br>(H.K.) Limited           | Hong Kong   | Aircraft leasing facilitator  | 100                                      | 1 share   |
| Cathay Pacific Aircraft Services<br>Limited                 | Isle of Man   | Aircraft acquisition<br>facilitator                                     | 100                                      | 10,000 shares of US\$1 each   |
| Cathay Pacific Catering Services<br>(H.K.) Limited          | Hong Kong   | Airline catering  | 100                                      | 600 shares  |
| Cathay Pacific MTN Financing<br>Limited                     | Cayman<br>Islands   | Financial services  | 100                                      | 1 share of US\$1  |
| Cathay Pacific MTN Financing<br>(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)<br>Company Limited             | Hong Kong   | Computer network for<br>interchange of air cargo<br>related information | 95                                       | 100 shares  |
| Guangzhou Guo Tai Information<br>Processing Company Limited | People's<br>Republic of<br>China                          | Information processing  | 100*                                     | Registered capital of<br>HK\$8,000,000 (wholly<br>foreign owned enterprise) |
| Hong Kong Airport Services<br>Limited                       | Hong Kong   | Aircraft ramp handling  | 100                                      | 100 shares  |
| Hong Kong Aviation and Airport<br>Services Limited          | Hong Kong   | Property investment   | 100*                                     | 2 shares  |
| Hong Kong Dragon Airlines<br>Limited                        | Hong Kong   | Operation of scheduled<br>airline services                              | 100                                      | 500,000,000 shares  |
| Hong Kong Express Airways<br>Limited                        | Hong Kong   | Operation of scheduled<br>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/<br>establishment and<br>operation | Principal activities   | Percentage<br>of issued<br>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 and 12 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.

The HKICPA has issued a new HKFRS, HKFRS 16 “Leases”, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Except for HKFRS 16 “Leases”, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in these financial statements.

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

### **HKFRS 16 “Leases”**

HKFRS 16 replaces HKAS 17 “Leases” and related interpretations, HK(IFRIC) 4 “Determining whether an arrangement contains a lease”, HK(SIC) 15 “Operating leases – incentives”, and HK(SIC) 27 “Evaluating the substance of transactions involving the legal form of a lease”. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the consolidated statement of financial position for all leases by lessees, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low-value assets. The standard does not significantly change the accounting of lessors.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 at 1st January 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained profit at 1st January 2019. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under HKAS 17 and related interpretations.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

#### (a) New definition of a lease

HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. 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.

The Group has chosen to apply the new definition of a lease to all contracts on transition to the new standard. The reclassifications and the adjustments arising from the initial adoption of HKFRS 16 are recognised in the opening balance of the consolidated statement of financial position at 1st January 2019.

## PRINCIPAL ACCOUNTING POLICIES

### 1. BASIS OF ACCOUNTING (continued)

#### (b) Lease accounting and transitional impact

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the lessees at 1st January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 1st January 2019 was 3.92%.

A reconciliation between commitments under operating leases for future periods at 31st December 2018 and lease liabilities recognised at 1st January 2019 under HKFRS 16 is provided below:

|  | HK\$M         |
|--|---------------|
| Operating lease commitments disclosed at 31st December 2018  | 19,958        |
| Less: commitments relating to leases exempt from capitalisation:   |               |
| – leases with remaining lease term ending on or before 31st December 2019,<br>short-term leases and leases of low-value assets | (301)         |
| Less: adjustments for contracts reassessed based on the lease definition in HKFRS 16   | (4)           |
| Add: adjustments as a result of a different treatment of extension and termination options                                     | 1,500         |
|  | 21,153        |
| Less: total future interest charges  | (2,550)       |
| Present value of remaining lease payments, discounted using the incremental borrowing rate<br>at 1st January 2019              | 18,603        |
| Add: obligations under finance leases recognised at 31st December 2018   | 23,191        |
| <b>Lease liabilities recognised at 1st January 2019</b>  | <b>41,794</b> |
| Of which are:  |               |
| Current lease liabilities  | 7,293         |
| Non-current lease liabilities  | 34,501        |
|  | 41,794        |

The associated right-of-use assets for aircraft and other significant leases were measured on a modified retrospective basis as if the new rules had always been applied since the commencement dates of the leases, but discounted using the respective incremental borrowing rates at 1st January 2019. Other right-of-use assets were measured at the amount equal to the lease liabilities. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

## 1. BASIS OF ACCOUNTING (continued)

The change in accounting policy affected the following items in the consolidated and company-level statement of financial position at 1st January 2019:

|   | At 31st<br>December 2018<br>HK\$M | Impact of initial<br>application of<br>HKFRS 16<br>HK\$M | At 1st<br>January 2019<br>HK\$M |
|---|-----------------------------------|--|---------------------------------|
| <b>Group</b>                                |                                   |  |                                 |
| <b>Assets</b>                               |                                   |  |                                 |
| Property, plant and equipment               | 117,124                           | 18,566   | 135,690                         |
| Investments in associates                   | 27,570                            | (1,219)  | 26,351                          |
| Other long-term receivables and investments | 4,015                             | (1,173)  | 2,842                           |
| Deferred tax assets                         | 793                               | (3)  | 790                             |
| Trade and other receivables                 | 12,475                            | (187)  | 12,288                          |
| <b>Liabilities</b>                          |                                   |  |                                 |
| Trade and other payables                    | (17,646)                          | 18   | (17,628)                        |
| Long-term liabilities                       | (73,877)                          | (18,603)   | (92,480)                        |
| Deferred tax liabilities                    | (13,178)                          | 255  | (12,923)                        |
| <b>Equity</b>                               |                                   |  |                                 |
| Reserves                                    | (46,830)                          | 2,346  | (44,484)                        |
| <b>Company</b>                              |                                   |  |                                 |
| <b>Assets</b>                               |                                   |  |                                 |
| Property, plant and equipment               | 99,520                            | 13,959   | 113,479                         |
| Trade and other receivables                 | 11,050                            | (123)  | 10,927                          |
| <b>Liabilities</b>                          |                                   |  |                                 |
| Trade and other payables                    | (14,182)                          | 18   | (14,164)                        |
| Long-term liabilities                       | (73,567)                          | (14,928)   | (88,495)                        |
| Deferred tax liabilities                    | (11,814)                          | 124  | (11,690)                        |
| <b>Equity</b>                               |                                   |  |                                 |
| Reserves                                    | (37,130)                          | 950  | (36,180)                        |

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients permitted by the standard at the date of initial application of HKFRS 16:

- when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31st December 2019;
- the Group excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application of HKFRS 16; and
- the Group applied hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## PRINCIPAL ACCOUNTING POLICIES

### 1. BASIS OF ACCOUNTING (continued)

The adoption of HKFRS 16 caused a significant increase in the Group's total borrowings and hence the Group's adjusted net debt/equity ratio rose from 0.92 to 1.25 on 1st January 2019 when compared to its position at 31st December 2018.

The Group's net debt/equity ratio at the end of the current and previous reporting periods under HKFRS 16 and HKAS 17 was as follows:

|   | HKFRS 16<br>31st December<br>2019<br>HK\$M | (Hypothetical)<br>HKAS 17<br>31st December<br>2019<br>HK\$M | HKFRS 16<br>1st January<br>2019<br>HK\$M | HKAS 17<br>31st December<br>2018<br>HK\$M |
|---|--|---|--|---|
| <b>Non-current liabilities:</b>                             |  |   |  |   |
| Long-term loans   | 43,134                                     | 43,134  | 40,952                                   | 40,952                                    |
| Lease liabilities   | 33,374                                     | 17,480  | 34,501                                   | 19,231                                    |
|   | <b>76,508</b>                              | <b>60,614</b>   | 75,453                                   | 60,183                                    |
| <b>Current liabilities:</b>                                 |  |   |  |   |
| Long-term loans   | 13,634                                     | 13,634  | 9,734                                    | 9,734                                     |
| Lease liabilities   | 7,118                                      | 3,045   | 7,293                                    | 3,960                                     |
|   | <b>20,752</b>                              | <b>16,679</b>   | 17,027                                   | 13,694                                    |
| Total borrowings  | <b>97,260</b>                              | <b>77,293</b>   | 92,480                                   | 73,877                                    |
| Liquid funds less bank overdrafts                           | <b>(14,864)</b>                            | <b>(14,864)</b>   | (15,296)                                 | (15,296)                                  |
| <b>Net borrowings</b>                                       | <b>82,396</b>                              | <b>62,429</b>   | 77,184                                   | 58,581                                    |
| Funds attributable to the shareholders of<br>Cathay Pacific | <b>62,773</b>                              | <b>65,264</b>   | 61,590                                   | 63,936                                    |
| Adjusted net debt/equity ratio                              | <b>1.31</b>                                | <b>0.96</b>   | 1.25                                     | 0.92                                      |

#### (c) Impact on the financial performance, financial position and cash flows

After the initial recognition of right-of-use assets and lease liabilities as at 1st January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their interest element and capital element (see note 24 to the financial statements), the latter of which is classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, instead of the previous classification of rental expenses within operating cash outflows for operating leases under HKAS 17.

The Group's lessee accounting policy is outlined in accounting policy 6(a)(i).

## 1. BASIS OF ACCOUNTING (continued)

The estimated effects of adopting HKFRS 16 on the financial statements for the year ended 31st December 2019 are as follows:

|  | HK\$M   |
|--|---------|
| <b>Estimated effect on consolidated statement of profit or loss and other comprehensive income*:</b> |         |
| <b>Decrease/(increase) in expenses</b>   |         |
| Lease charges  | 4,507   |
| Depreciation of property, plant and equipment  | (3,849) |
| Finance charges  | (744)   |
| Exchange differences, net  | 71      |
| Taxation   | (11)    |
| Decrease in profit attributable to the shareholders of Cathay Pacific                                | (26)    |
| Decrease in earnings per share (basic and diluted)   | (0.7)¢  |

|   | HK\$M    |
|---|----------|
| <b>Estimated effect on consolidated statement of financial position*:</b> |          |
| <b>Increase/(decrease) in assets</b>                                      |          |
| Property, plant and equipment**   | 19,937   |
| Investments in associates   | (1,219)  |
| Other long-term receivables and investments                               | (1,130)  |
| Deferred tax assets   | 31       |
| Trade and other receivables   | (168)    |
|   | 17,451   |
| <b>(Increase)/decrease in liabilities</b>                                 |          |
| Trade and other payables  | 18       |
| Long-term liabilities**   | (19,967) |
| Other long-term payables  | (222)    |
| Deferred tax liabilities  | 229      |
|   | (19,942) |
| <b>Equity</b>   |          |
| Decrease in reserves  | 2,491    |

\* Excluding the impact on share of profits of associates for the year ended 31st December 2019.

\*\* At 19th July 2019, the Group recognised the right-of-use assets and lease liabilities of HK\$4,732 million and HK\$4,668 million respectively arising from acquisition of HK Express.

|  | HK\$M   |
|--|---------|
| <b>Estimated effect on consolidated statement of cash flows:</b> |         |
| Increase in cash generated from operations                       | 4,445   |
| Increase in interest paid  | (744)   |
| Increase in net cash inflow from operating activities            | 3,701   |
| Increase in loan and lease repayments                            | (3,701) |
| Increase in net cash outflow from financing activities           | (3,701) |

## PRINCIPAL ACCOUNTING POLICIES

### 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.

#### 4. FOREIGN CURRENCIES (continued)

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 directly in equity via the statement of changes in equity. These exchange differences are included in profit or loss as an adjustment to the hedged item in the same period or periods during which the hedged item affects profit or loss.
- (b) unrealised exchange differences on net investments in foreign subsidiaries and associates (including intra-Group balances of an equity nature) and related long-term liabilities are recognised directly 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:

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

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.

## 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

##### (i) Policy applicable from 1st January 2019

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.

## 6. LEASED ASSETS (continued)

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.

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; or
- a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option.

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.

### (ii) Policy applicable prior to 1st January 2019

In the comparative period, property, plant and equipment held under lease agreements that transferred substantially all the risks and rewards of ownership was treated as if it had been purchased outright at fair market value and the corresponding liabilities to the lessor, net of interest charges, were included as obligations under finance leases. Leases which did not transfer substantially all the risks and rewards of ownership were treated as operating leases.

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

Operating lease payments were charged to profit or loss on a straight line basis over the life of the related lease.

### (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)(i), then the Group classifies the sub-lease as an operating lease.

## PRINCIPAL ACCOUNTING POLICIES

### 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.

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.

## 8. FINANCIAL ASSETS (continued)

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.

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.

## PRINCIPAL ACCOUNTING POLICIES

### 8. FINANCIAL ASSETS (continued)

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.

### 9. FINANCIAL LIABILITIES

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

Where long-term liabilities have been defeased by funds and other investments, those liabilities and deposits (and income and charge arising therefrom) are netted off, in order to reflect the overall commercial effect of the arrangements. Such netting off occurs where there is a current legally enforceable right to set off the liability and the deposit and the Group intends either to settle on a net basis or to realise the deposit and settle the liability simultaneously.

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. RETIREMENT BENEFITS

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

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

Actuarial gains and losses arising from experience adjustments, 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.

## 13. DEFERRED TAXATION

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

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

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

## PRINCIPAL ACCOUNTING POLICIES

### 14. 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.

### 15. 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.

### 16. 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.

### 17. 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.

## 18. 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.

## 19. 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.

## STATISTICS

|   |                 | 2019             | 2018      |
|---|-----------------|------------------|-----------|
| <b>Consolidated profit or loss summary</b>  | <i>HK\$M</i>    |                  |           |
| Passenger services  |                 | <b>73,985</b>    | 73,119    |
| Cargo services  |                 | <b>23,810</b>    | 28,316    |
| Other services and recoveries   |                 | <b>9,178</b>     | 9,625     |
| Revenue   |                 | <b>106,973</b>   | 111,060   |
| Operating expenses  |                 | <b>(103,646)</b> | (107,465) |
| Operating profit/(loss)   |                 | <b>3,327</b>     | 3,595     |
| Profit on disposal of investments   |                 | <b>–</b>         | –         |
| Gain on deemed partial disposal of associates   |                 | <b>114</b>       | –         |
| Net finance charges   |                 | <b>(2,939)</b>   | (2,114)   |
| Share of profits of associates  |                 | <b>1,643</b>     | 1,762     |
| Profit/(loss) before taxation   |                 | <b>2,145</b>     | 3,243     |
| Taxation  |                 | <b>(454)</b>     | (466)     |
| Profit/(loss) for the year  |                 | <b>1,691</b>     | 2,777     |
| Profit attributable to non-controlling interests  |                 | <b>–</b>         | (432)     |
| Profit/(loss) attributable to the shareholders of Cathay Pacific                                    |                 | <b>1,691</b>     | 2,345     |
| Dividends paid  |                 | <b>(1,495)</b>   | (590)     |
| Retained profit for the year  |                 | <b>196</b>       | 1,755     |
| <b>Consolidated statement of financial position summary</b>   | <i>HK\$M</i>    |                  |           |
| Property, plant and equipment and intangible assets   |                 | <b>155,265</b>   | 128,298   |
| Long-term receivables and investments   |                 | <b>30,878</b>    | 31,585    |
| Borrowings  |                 | <b>(97,260)</b>  | (73,877)  |
| Liquid funds less bank overdrafts   |                 | <b>14,864</b>    | 15,296    |
| Net borrowings  |                 | <b>(82,396)</b>  | (58,581)  |
| Net current liabilities (excluding liquid funds, bank overdrafts and current portion of borrowings) |                 | <b>(23,690)</b>  | (20,329)  |
| Other long-term payables  |                 | <b>(4,806)</b>   | (4,649)   |
| Deferred taxation   |                 | <b>(12,475)</b>  | (12,385)  |
| Net assets  |                 | <b>62,776</b>    | 63,939    |
| Financed by:  |                 |                  |           |
| Funds attributable to the shareholders of Cathay Pacific  |                 | <b>62,773</b>    | 63,936    |
| Non-controlling interests   |                 | <b>3</b>         | 3         |
| Total equity  |                 | <b>62,776</b>    | 63,939    |
| <b>Per share</b>  |                 |                  |           |
| Shareholders' funds   | <i>HK\$</i>     | <b>15.96</b>     | 16.25     |
| EBITDA  | <i>HK\$</i>     | <b>4.91</b>      | 3.85      |
| Earnings/(loss)   | <i>HK cents</i> | <b>43.0</b>      | 59.6      |
| Dividend  | <i>HK\$</i>     | <b>0.18</b>      | 0.30      |
| <b>Ratios</b>   |                 |                  |           |
| Profit/(loss) margin  | %               | <b>1.6</b>       | 2.1       |
| Return on capital employed  | %               | <b>3.5</b>       | 4.0       |
| Dividend cover  | <i>Times</i>    | <b>2.4</b>       | 2.0       |
| Cash interest cover   | <i>Times</i>    | <b>6.5</b>       | 10.4      |
| Gross debt/equity ratio   | <i>Times</i>    | <b>1.55</b>      | 1.16      |
| Net debt/equity ratio   | <i>Times</i>    | <b>1.31*</b>     | 0.92      |

\* Disregarding the effect of adopting HKFRS 16, the net debt/equity ratio increased from 0.92 to 0.96 times. Further details can be found in accounting policy 1.

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 recognises 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.

| 2017     | 2016     | 2015     | 2014      | 2013     | 2012     | 2011     | 2010     |
|----------|----------|----------|-----------|----------|----------|----------|----------|
| 66,408   | 66,926   | 73,047   | 75,734    | 71,826   | 70,133   | 67,778   | 59,354   |
| 23,903   | 20,063   | 23,122   | 25,400    | 23,663   | 24,555   | 25,980   | 25,901   |
| 6,973    | 5,762    | 6,173    | 4,857     | 4,995    | 4,688    | 4,648    | 4,269    |
| 97,284   | 92,751   | 102,342  | 105,991   | 100,484  | 99,376   | 98,406   | 89,524   |
| (99,563) | (93,276) | (95,678) | (101,556) | (96,724) | (97,763) | (93,125) | (78,672) |
| (2,279)  | (525)    | 6,664    | 4,435     | 3,760    | 1,613    | 5,281    | 10,852   |
| 586      | -        | -        | -         | -        | -        | -        | 2,165    |
| 244      | -        | -        | -         | -        | -        | -        | 868      |
| (1,761)  | (1,301)  | (1,164)  | (1,158)   | (1,019)  | (884)    | (744)    | (978)    |
| 2,630    | 2,049    | 1,965    | 772       | 838      | 754      | 1,708    | 2,577    |
| (580)    | 223      | 7,465    | 4,049     | 3,579    | 1,483    | 6,245    | 15,484   |
| (308)    | (497)    | (1,157)  | (599)     | (675)    | (409)    | (779)    | (1,441)  |
| (888)    | (274)    | 6,308    | 3,450     | 2,904    | 1,074    | 5,466    | 14,043   |
| (371)    | (301)    | (308)    | (300)     | (284)    | (212)    | (169)    | (185)    |
| (1,259)  | (575)    | 6,000    | 3,150     | 2,620    | 862      | 5,297    | 13,858   |
| -        | (1,259)  | (2,046)  | (1,022)   | (551)    | (1,338)  | (3,777)  | (1,691)  |
| (1,259)  | (1,834)  | 3,954    | 2,128     | 2,069    | (476)    | 1,520    | 12,167   |
| 122,403  | 117,390  | 111,158  | 108,789   | 104,737  | 93,703   | 82,099   | 74,116   |
| 32,212   | 27,902   | 27,947   | 29,290    | 27,449   | 24,776   | 23,393   | 17,512   |
| (78,394) | (70,169) | (63,105) | (65,096)  | (67,052) | (59,546) | (43,335) | (39,629) |
| 19,094   | 20,290   | 20,647   | 21,098    | 27,736   | 24,182   | 19,597   | 24,194   |
| (59,300) | (49,879) | (42,458) | (43,998)  | (39,316) | (35,364) | (23,738) | (15,435) |
| (18,649) | (21,727) | (23,961) | (22,478)  | (19,110) | (15,711) | (16,685) | (14,022) |
| (3,502)  | (7,517)  | (15,838) | (10,487)  | (1,318)  | (3,205)  | (3,650)  | (1,700)  |
| (11,892) | (10,643) | (8,781)  | (9,263)   | (9,429)  | (8,061)  | (6,651)  | (5,842)  |
| 61,272   | 55,526   | 48,067   | 51,853    | 63,013   | 56,138   | 54,768   | 54,629   |
| 61,101   | 55,365   | 47,927   | 51,722    | 62,888   | 56,021   | 54,633   | 54,476   |
| 171      | 161      | 140      | 131       | 125      | 117      | 135      | 153      |
| 61,272   | 55,526   | 48,067   | 51,853    | 63,013   | 56,138   | 54,768   | 54,629   |
| 15.53    | 14.07    | 12.18    | 13.15     | 15.99    | 14.24    | 13.89    | 13.85    |
| 2.68     | 2.56     | 4.45     | 3.44      | 3.04     | 2.31     | 3.34     | 5.80     |
| (32.0)   | (14.6)   | 152.5    | 80.1      | 66.6     | 21.9     | 134.7    | 352.3    |
| 0.05     | 0.05     | 0.53     | 0.36      | 0.22     | 0.08     | 0.52     | 1.11     |
| (1.3)    | (0.6)    | 5.9      | 3.0       | 2.6      | 0.9      | 5.4      | 15.5     |
| 0.8      | 1.0      | 8.0      | 4.7       | 4.0      | 2.3      | 8.4      | 21.7     |
| (6.4)    | (2.9)    | 2.9      | 2.2       | 3.0      | 2.7      | 2.6      | 3.2      |
| 4.9      | 9.1      | 25.5     | 20.7      | 23.8     | 20.9     | 41.7     | 35.2     |
| 1.28     | 1.27     | 1.32     | 1.26      | 1.07     | 1.06     | 0.79     | 0.73     |
| 0.97     | 0.90     | 0.89     | 0.85      | 0.63     | 0.63     | 0.43     | 0.28     |

## Note:

(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 recognises 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

|   |                 | 2019        | 2018        |
|---|-----------------|-------------|-------------|
| <b>Cathay Pacific and Cathay Dragon operating summary</b> |                 |             |             |
| Available tonne kilometres                                | Million         | 33,077      | 32,387      |
| Revenue tonne kilometres                                  | Million         | 24,090      | 24,543      |
| Available seat kilometres                                 | Million         | 163,244     | 155,362     |
| Revenue passengers carried                                | '000            | 35,233      | 35,468      |
| Revenue passenger kilometres                              | Million         | 134,397     | 130,630     |
| Revenue load factor                                       | %               | 77.4        | 79.6        |
| Passenger load factor                                     | %               | 82.3        | 84.1        |
| Cargo carried   | '000 tonnes     | 2,022       | 2,152       |
| Cargo revenue tonne kilometres                            | Million         | 11,311      | 12,122      |
| Cargo load factor   | %               | 64.4        | 68.8        |
| Excess baggage carried                                    | Tonnes          | 2,179       | 2,329       |
| Kilometres flown  | Million         | 618         | 611         |
| Block hours   | '000 hours      | 880         | 877         |
| Aircraft departures                                       | '000            | 175         | 177         |
| Length of scheduled routes network                        | '000 kilometres | 670         | 715         |
| Number of destinations at year end                        | Destinations    | 255         | 232         |
| Staff number at year end                                  | Number          | 27,342      | 26,623      |
| ATK per staff   | '000            | 1,256       | 1,217       |
| <b>On-time performance</b>                                |                 |             |             |
| Departure (within 15 minutes)                             | %               | 76.3        | 72.7        |
| <b>Average aircraft utilisation</b>                       |                 |             |             |
|   | Hours per day   |             |             |
| A320-200  |                 | 8.9         | 8.8         |
| A321-200  |                 | 9.1         | 10.1        |
| A330-300  |                 | 9.8         | 10.4        |
| A340-300  |                 | –           | –           |
| A350-900  |                 | 14.6        | 15.0        |
| A350-1000   |                 | 14.6        | 12.6        |
| 747-400   |                 | –           | –           |
| 747-200F/300SF  |                 | –           | –           |
| 747-400F/BCF/ERF/8F                                       |                 | 12.4        | 12.8        |
| 777-200/300   |                 | 8.0         | 8.6         |
| 777-300ER   |                 | 14.9        | 15.6        |
| <b>Fleet average</b>                                      |                 | <b>11.9</b> | <b>12.3</b> |
| <b>Fleet profile</b>                                      |                 |             |             |
| Aircraft operated by Cathay Pacific:                      |                 |             |             |
| A330-300  |                 | 29          | 33          |
| A340-300  |                 | –           | –           |
| A350-900  |                 | 24          | 22          |
| A350-1000   |                 | 12          | 8           |
| 747-400   |                 | –           | –           |
| 747-400F  |                 | –           | –           |
| 747-400BCF  |                 | 1           | 1           |
| 747-400ERF  |                 | 6           | 6           |
| 747-8F  |                 | 14          | 14          |
| 777-200   |                 | 1           | 4           |
| 777-300   |                 | 17          | 14          |
| 777-300ER   |                 | 51          | 52          |
| <b>Total</b>  |                 | <b>155</b>  | <b>154</b>  |
| Aircraft operated by Cathay Dragon:                       |                 |             |             |
| A320-200  |                 | 15          | 15          |
| A321-200  |                 | 8           | 8           |
| A330-300  |                 | 25          | 25          |
| <b>Total</b>  |                 | <b>48</b>   | <b>48</b>   |

## 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 recognises 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.

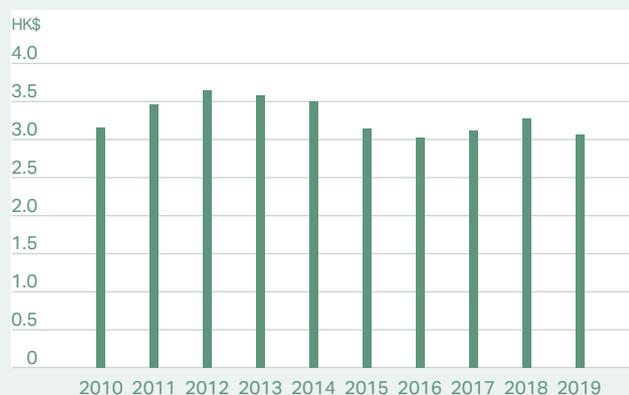
| 2017    | 2016    | 2015    | 2014    | 2013    | 2012    | 2011    | 2010    |
|---------|---------|---------|---------|---------|---------|---------|---------|
| 31,439  | 30,462  | 30,048  | 28,440  | 26,259  | 26,250  | 26,383  | 24,461  |
| 23,679  | 22,418  | 22,220  | 20,722  | 18,696  | 18,819  | 19,309  | 19,373  |
| 150,138 | 146,086 | 142,680 | 134,711 | 127,215 | 129,595 | 126,340 | 115,748 |
| 34,820  | 34,323  | 34,065  | 31,570  | 29,920  | 28,961  | 27,581  | 26,796  |
| 126,663 | 123,478 | 122,330 | 112,257 | 104,571 | 103,837 | 101,536 | 96,588  |
| 79.7    | 79.5    | 79.9    | 78.1    | 76.6    | 75.7    | 76.5    | 81.1    |
| 84.4    | 84.5    | 85.7    | 83.3    | 82.2    | 80.1    | 80.4    | 83.4    |
| 2,056   | 1,854   | 1,798   | 1,723   | 1,539   | 1,563   | 1,649   | 1,804   |
| 11,633  | 10,675  | 10,586  | 10,044  | 8,750   | 8,942   | 9,648   | 10,175  |
| 67.8    | 64.4    | 64.2    | 64.3    | 61.8    | 64.2    | 67.2    | 75.7    |
| 2,449   | 2,471   | 2,596   | 2,699   | 2,599   | 2,711   | 3,103   | 4,053   |
| 596     | 579     | 576     | 550     | 512     | 502     | 494     | 464     |
| 857     | 826     | 823     | 789     | 735     | 715     | 695     | 652     |
| 175     | 172     | 173     | 167     | 160     | 154     | 146     | 138     |
| 653     | 636     | 620     | 586     | 576     | 602     | 568     | 535     |
| 200     | 182     | 179     | 210     | 190     | 179     | 167     | 146     |
| 26,029  | 26,674  | 26,833  | 25,755  | 24,572  | 23,844  | 23,015  | 21,592  |
| 1,208   | 1,142   | 1,120   | 1,104   | 1,069   | 1,101   | 1,146   | 1,133   |
| 71.2    | 72.1    | 64.7    | 70.1    | 75.5    | 77.4    | 82.0    | 80.9    |
| 9.3     | 9.3     | 9.4     | 9.2     | 9.1     | 8.8     | 8.9     | 8.2     |
| 9.4     | 9.4     | 9.8     | 9.9     | 8.8     | 8.9     | 8.4     | 8.6     |
| 10.7    | 11.4    | 12.1    | 12.4    | 12.0    | 12.3    | 12.1    | 11.6    |
| 3.8     | 8.3     | 8.5     | 11.6    | 13.3    | 12.7    | 13.0    | 13.8    |
| 14.1    | 12.7    | –       | –       | –       | –       | –       | –       |
| –       | –       | –       | –       | –       | –       | –       | –       |
| –       | 5.2     | 5.7     | 8.2     | 10.9    | 12.7    | 13.7    | 13.2    |
| –       | –       | –       | –       | –       | –       | –       | –       |
| 12.5    | 11.7    | 11.9    | 11.8    | 10.9    | 11.4    | 13.8    | 14.4    |
| 8.8     | 9.4     | 8.6     | 8.8     | 8.3     | 8.4     | 8.2     | 8.0     |
| 16.0    | 16.0    | 15.9    | 16.1    | 15.8    | 15.7    | 15.7    | 15.3    |
| 12.3    | 12.2    | 12.2    | 12.2    | 11.8    | 12.0    | 12.3    | 12.0    |
| 37      | 41      | 42      | 40      | 35      | 37      | 33      | 32      |
| –       | 4       | 7       | 11      | 11      | 11      | 13      | 15      |
| 22      | 10      | –       | –       | –       | –       | –       | –       |
| –       | –       | –       | –       | –       | –       | –       | –       |
| –       | –       | 3       | 7       | 13      | 18      | 21      | 22      |
| –       | –       | 4       | 5       | 6       | 6       | 6       | 6       |
| –       | 1       | 1       | 1       | 1       | 6       | 8       | 12      |
| 6       | 6       | 6       | 6       | 6       | 6       | 6       | 6       |
| 14      | 14      | 13      | 13      | 13      | 8       | 4       | –       |
| 5       | 5       | 5       | 5       | 5       | 5       | 5       | 5       |
| 12      | 12      | 12      | 12      | 12      | 12      | 12      | 12      |
| 53      | 53      | 53      | 47      | 38      | 29      | 24      | 18      |
| 149     | 146     | 146     | 147     | 140     | 138     | 132     | 128     |
| 15      | 15      | 15      | 15      | 15      | 15      | 11      | 11      |
| 8       | 8       | 8       | 8       | 6       | 6       | 6       | 6       |
| 24      | 20      | 19      | 18      | 20      | 17      | 15      | 14      |
| 47      | 43      | 42      | 41      | 41      | 38      | 32      | 31      |

## Note:

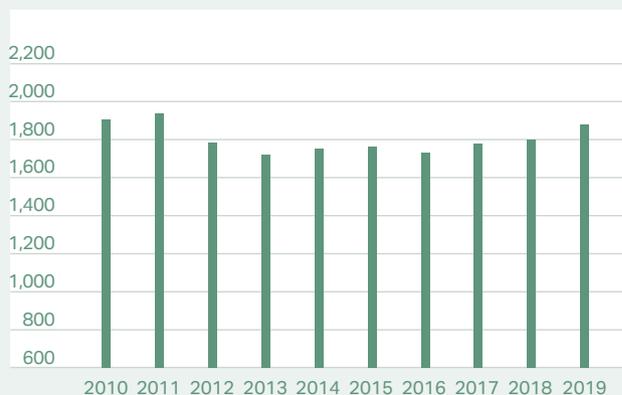
(2) The Group adopted HKFRS 9 and HKFRS 15 with effect from 1st January 2018, and has changed its accounting policies in relation to financial instruments and revenue recognition. Under the transition methods chosen, the Group recognises the cumulative effect of the initial application of HKFRS 9 and 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)



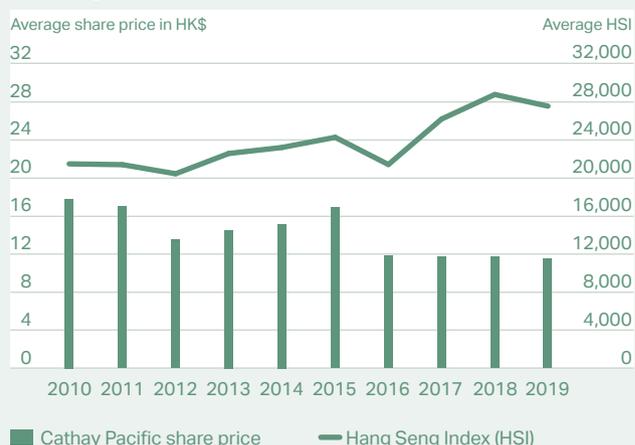
## ATK per HK\$'000 staff cost



## Aircraft utilisation



## Share price



|  |               | 2019         | 2018  | 2017   | 2016   | 2015  | 2014  | 2013  | 2012  | 2011  | 2010  |
|--|---------------|--------------|-------|--------|--------|-------|-------|-------|-------|-------|-------|
| <b>Productivity</b>  |               |              |       |        |        |       |       |       |       |       |       |
| Cost per ATK (with fuel)   | HK\$          | <b>3.06</b>  | 3.27  | 3.12   | 3.02   | 3.14  | 3.50  | 3.58  | 3.65  | 3.46  | 3.16  |
| ATK per HK\$'000 staff cost  | Unit          | <b>1,879</b> | 1,801 | 1,775  | 1,730  | 1,764 | 1,750 | 1,720 | 1,785 | 1,936 | 1,905 |
| Aircraft utilisation   | Hours per day | <b>11.9</b>  | 12.3  | 12.3   | 12.2   | 12.2  | 12.2  | 11.8  | 12.0  | 12.3  | 12.0  |
| <b>Share prices</b>  |               |              |       |        |        |       |       |       |       |       |       |
|  | HK\$          |              |       |        |        |       |       |       |       |       |       |
| High   |               | <b>13.9</b>  | 14.7  | 13.4   | 14.0   | 20.6  | 17.7  | 16.8  | 15.9  | 23.1  | 24.1  |
| Low  |               | <b>9.5</b>   | 9.9   | 10.4   | 10.1   | 12.7  | 13.7  | 12.2  | 11.9  | 11.9  | 12.8  |
| Year-end   |               | <b>11.5</b>  | 11.1  | 12.1   | 10.2   | 13.4  | 16.9  | 16.4  | 14.2  | 13.3  | 21.5  |
| <b>Price ratios (Note)</b>   |               |              |       |        |        |       |       |       |       |       |       |
|  | Times         |              |       |        |        |       |       |       |       |       |       |
| Price/earnings   |               | <b>26.8</b>  | 18.6  | (37.8) | (69.8) | 8.8   | 21.1  | 24.6  | 64.9  | 9.9   | 6.1   |
| Market capitalisation/funds attributable to the shareholders of Cathay Pacific |               | <b>0.7</b>   | 0.7   | 0.8    | 0.7    | 1.1   | 1.3   | 1.0   | 1.0   | 1.0   | 1.6   |
| Price/cash flows   |               | <b>2.5</b>   | 2.5   | 7.4    | 5.2    | 3.1   | 5.4   | 4.6   | 6.1   | 3.4   | 4.5   |

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

## GLOSSARY

### TERMS

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

**Net borrowings** Borrowings and bank overdrafts less liquid funds.

**Available tonne kilometres ("ATK")** Overall capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo 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

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

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

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

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

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

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

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

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

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

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

$$\text{Breakeven load factor} = \text{A theoretical revenue load factor at which the traffic revenue equates to the net operating expenses.}$$

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

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

## CORPORATE AND SHAREHOLDER INFORMATION

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

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Hong Kong

### FINANCIAL CALENDAR

Year ended 31st December 2019

|   |                |
|---|----------------|
| Annual report available to shareholders | 8th April 2020 |
| Annual General Meeting                  | 13th May 2020  |

Six months ending 30th June 2020

|                              |              |
|------------------------------|--------------|
| Interim results announcement | August 2020  |
| Interim dividend payable     | October 2020 |

### 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 changes in the economies and industries in which the Group operates (in particular in Hong Kong and Mainland China), 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.

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