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CATHAY PACIFIC AIRWAYS LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 00293)

Announcement
2009 Annual Results

Financial and Operating Highlights

Group Financial Statistics

Results		2009	2008 (restated)	Change
Turnover	<i>HK\$ million</i>	66,978	86,563	-22.6%
Profit/(loss) attributable to owners of Cathay Pacific	<i>HK\$ million</i>	4,694	(8,696)	+13,390
Earnings/(loss) per share	<i>HK cents</i>	119.3	(221.0)	+340.3
Dividend per share	<i>HK cents</i>	10.0	3.0	+233.3%
Profit/(loss) margin	<i>%</i>	7.0	(10.0)	+17.0%pt
Financial position				
Funds attributable to owners of Cathay Pacific	<i>HK\$ million</i>	42,238	36,709	+15.1%
Net borrowings	<i>HK\$ million</i>	26,131	25,198	+3.7%
Shareholders' funds per share	<i>HK\$</i>	10.7	9.3	+15.1%
Net debt/equity ratio	<i>Times</i>	0.62	0.69	-0.07 times

Operating Statistics – Cathay Pacific and Dragonair

		2009	2008 (restated)	Change
Available tonne kilometers ("ATK")	<i>Million</i>	22,249	24,410	-8.9%
Passengers carried	<i>'000</i>	24,558	24,959	-1.6%
Passenger load factor	<i>%</i>	80.5	78.8	+1.7%pt
Passenger yield	<i>HK cents</i>	51.1	63.5	-19.5%
Cargo and mail carried	<i>'000 tonnes</i>	1,528	1,645	-7.1%
Cargo and mail load factor	<i>%</i>	70.8	65.9	+4.9%pt
Cargo and mail yield	<i>HK\$</i>	1.86	2.54	-26.8%
Cost per ATK	<i>HK\$</i>	2.76	3.80	-27.4%
Cost per ATK without fuel	<i>HK\$</i>	2.00	1.89	+5.8%
Aircraft utilisation	<i>Hours per day</i>	11.2	11.5	-2.6%
On-time performance	<i>%</i>	86.8	81.4	+5.4%pt

Capacity, load factor and yield – Cathay Pacific and Dragonair

	Capacity			Load factor (%)			Yield
	ASK/ATK (million)*						Change
	2009	2008	Change	2009	2008	Change	Change
Passenger services							
Southwest Pacific and South Africa	17,959	17,689	+1.5%	80.8	77.0	+3.8%pt	-21.6%
Europe	20,222	20,017	+1.0%	85.3	84.4	+0.9%pt	-22.5%
North Asia	23,343	24,028	-2.9%	72.2	73.0	-0.8%pt	-21.9%
Southeast Asia and Middle East	24,381	22,528	+8.2%	77.7	77.4	+0.3%pt	-18.4%
North America	25,262	31,216	-19.1%	86.7	81.7	+5.0%pt	-14.3%
Overall	111,167	115,478	-3.7%	80.5	78.8	+1.7%pt	-19.5%
Cargo services	11,666	13,425	-13.1%	70.8	65.9	+4.9%pt	-26.8%

* Capacity is measured in available seat kilometres ("ASK") for passenger services and available tonne kilometres ("ATK") for cargo services.

Passenger services
Home market - Hong Kong and Pearl River Delta

- Our home market was deeply affected by the economic downturn, particularly by its effect on passenger demand for premium seats. Our front-end business out of Hong Kong is heavily dependent on financial institutions, most of which were hit hard by the financial crisis.
- Corporate sales were affected by companies either cutting back on travel by employees or downgrading from premium to economy class travel. There was some minor reassessment later in the year but at the end of 2009 many companies still had travel restrictions in place.
- Demand in our economy cabins remained strong throughout the year. However, aggressive fare promotions were required to stimulate this demand in a very competitive market. This depressed yields.
- The outbreak of the Influenza A (H1N1) virus had a significant impact on business during May, June and July, in particular affecting leisure travel and group business between Hong Kong and regional destinations.
- Dragonair's business derived from the Pearl River Delta region increased following the launch of a twice daily service between Hong Kong and Guangzhou in September. The service has proved popular with travellers who have Hong Kong connecting flights.

Comments by region are as follows:

Southwest Pacific and South Africa

- Demand and yield suffered as a result of the economic downturn. Premium traffic in particular was badly hit. Economy class loads held up well on most routes although this was only achieved at the expense of yield due to very significant competition for business. In response to the economic downturn, we reduced capacity on some services. Frequencies on the Sydney route were reduced from four flights a day to three and we withdrew three non-stop services to Brisbane.
- We introduced seasonal increases to the number of frequencies on the Auckland route from late October, when twice daily services were introduced to cater for the southern summer demand.
- The South African route enjoyed a better year than most other routes. The load factor was high throughout the year and yield reductions were less severe than elsewhere, though there was a marked slowdown in the winter as usual.

Europe

- We reduced frequencies on the Frankfurt, London and Paris routes in response to the economic downturn.
- The reduction in premium traffic was particularly significant on the European routes in the first three quarters of the year, with big reductions in both passenger numbers and yield.
- Europe was the first region to show tentative signs of a slow recovery, as demand for premium seats began to recover during the last quarter of the year, particularly on the London route. However, yields were still well below normal peak-season levels and the improvement was from a very low base.
- Economy class demand remained fairly robust on all European routes throughout the year, although to achieve this yields fell sharply, with aggressive competition in all markets.
- In December we announced a strengthening of our European network with the launch of a new four times weekly service to Milan, commencing in March 2010. This will supplement the current daily service to Rome. We have also announced plans to begin a thrice-weekly service to Moscow from summer 2010.

North Asia

- Our passenger business to and from Mainland China was generally slow during the year, although there was some recovery in the fourth quarter, but at reduced yields. Demand for premium seats remained weak, as companies continued to operate under highly restrictive travel policies.
- We reduced Dragonair services to Sanya to help balance capacity with demand. We also suspended services to Dalian, Fukuoka, Guilin, Shenyang, Taichung and Xian from May.
- Business to and from Japan was adversely affected by currency movements and by the economic downturn. In addition, Influenza A (H1N1) caused a substantial reduction in bookings from May to July.
- We increased the Sapporo service to daily over the summer period in response to growing interest in north Japan as a leisure destination. We also provided additional services at Christmas and Chinese New Year and will increase to a daily service again in July and August 2010.
- Our business in Korea was generally poor during the year, with outbound travel affected by the weak Won. We removed one daily service from the Seoul route and reduced Dragonair's Busan services to four times weekly in response to weak demand. However, there were some signs of an improvement in demand, especially inbound to Korea, towards the end of the year and the service will return to five flights a day by July 2010.
- Demand on flights out of Taiwan was adversely affected by the substantial increase in cross-Strait flights to Mainland China which started to take effect in August. However, inbound business was more robust as a result of growing interest in Taiwan as a leisure destination for Hong Kong travellers. H1N1 had a significant adverse effect on demand on the Taiwan routes between May and July.
- Business to and from Kaohsiung was better than that to and from Taipei, reflecting less-intense competition on the former route. However, yields remained under pressure.

Southeast Asia and Middle East

- All routes within the region were affected by the economic downturn, while a number were also affected by increasing competition from low cost carriers.
- As a result of the economic downturn we reduced frequencies on the Bangkok, Kota Kinabalu and Singapore routes.
- The Singapore route suffered for much of the year from a sharp reduction in premium traffic.
- We put on a number of extra flights to and from Indonesia as demand picked up during the Lebaran festival in what was an otherwise a difficult year.
- Demand into and out of the Philippines remained reasonable throughout the year, although yields were significantly down.
- We added four flights a week to the daily service to Denpasar in response to strong summer demand.
- We saw some growth to and from Thailand, albeit from a low base. Leisure travel has picked up more recently but the political uncertainty continues to affect underlying demand.

- The Dragonair service to Hanoi, launched in 2008, performed satisfactorily.
- Dragonair's service to Kathmandu in Nepal was combined with its service to Dhaka, Bangladesh, for operational reasons and performed satisfactorily, especially during the winter peak season.
- Business to and from Colombo showed some improvement with the cessation of the civil conflict in Sri Lanka, albeit from a low base.
- Our business to and from India began to improve in the fourth quarter after a difficult year, reflecting an improvement in premium revenues. The daily Dragonair service to Bengaluru was reduced to four times a week in line with reduced demand. Half of the twice daily Delhi flights were routed via Bangkok.
- Demand to and from the Middle East remained relatively robust in 2009, although it weakened towards the end of the year, especially on the Dubai route. Riyadh became a daily service, and a new four-times-a-week service to Jeddah via Dubai was launched in October. The Jeddah service will become daily in March 2010.

North America

- We reduced capacity on the Los Angeles, San Francisco, Toronto and Vancouver routes as part of our effort to align capacity with reduced demand.
- Load factors in the economy class cabins were high on North American routes throughout the year as a result, though yields were still reduced significantly as a result of very aggressive competition. Premium class demand on all North American routes was heavily affected by the economic downturn.
- Toronto was switched to an overnight operation in the summer, with an early morning departure from the city. Demand from premium passengers on this route was weak for most of the year.
- In response to a recent gradual upturn in demand, we will increase services to Toronto by adding three more flights per week from March 2010. We will also add three flights per week to Los Angeles from May 2010, making a total of 17 per week.

Cargo services

- Cargo demand weakened from late 2008 in response to the global economic downturn. Freight movements started to fall on all major trade routes. All our major markets were affected to some degree. The India and the Middle East markets were the least affected. The USA and Europe (which are the key export markets for Hong Kong and Mainland China) suffered badly as consumers reduced their spending, with the consequence that the flow of new orders dried up while retailers and their suppliers waited for a reduction in inventories. The same factors affected intra-Asian cargo traffic where much of the volume is made up of semi-manufactured parts moving to other points within the region for final assembly and export.
- The reduction in freight volumes led to a global imbalance of supply and demand with too much capacity chasing too little available cargo in the market. The resultant and intense competition caused rates to fall rapidly and this led to a rapid reduction in yields and revenues.
- Carriers responded to the reduction in demand by reducing capacity; either through ad-hoc but frequent flight cancellations or through the parking or decommissioning of older, less efficient aircraft. It is estimated that approximately 20% of the global wide-bodied freighter fleet had been parked or decommissioned by the middle of 2009.
- Business started to improve in the third quarter. Capacity reductions and an increase in demand, albeit from a low base, resulted in increased load factors. New orders were being placed for the year end retail season and inventories needed to be rebuilt. Uncertainty as to the strength of final consumer demand and the desire to hold the least possible amounts of inventory meant that many of these orders were placed later than would normally be the case. This favoured airfreight over sea freight. As a result, the seasonal peak in air cargo demand was stronger than expected. By the end of the third quarter yields and load factors had returned to 2008 levels. In addition, there was a partial reversal of the usual

imbalance between outbound and inbound traffic, with stronger inbound traffic than normal in particular from the North American, European and Southwest Pacific markets.

- Along with most other cargo carriers, we reduced capacity in 2009. This began with ad hoc cancellations early in the year. As the extent of the downturn became clearer, we reduced scheduled services (with effect from May) from 126 to 84 a week. We parked five of our aircraft – all Boeing 747-400BCFs – in the desert in California. A further aircraft was wet-leased to our subsidiary, Air Hong Kong.
- A central objective of the capacity reductions was to maintain the integrity of our freighter network. We therefore reduced frequency and capacity but not destinations served.
- On the positive side, the network was strengthened by the introduction of a new service to Jakarta and Ho Chi Minh City in January 2009 and a three-times-weekly service to Miami and Houston in March 2009, which gave us access to the increasingly important Latin American markets. Three additional frequencies were added to the Milan service in February 2009.
- The composition of the freighter fleet changed materially and for the better during the year. We completed the retirement of our older, fuel-inefficient Boeing 747-200F “Classic” freighters, with the last aircraft leaving service in July and we continued to introduce new Boeing 747-400ERF freighters into the fleet, so improving operational efficiency. The sixth and final Boeing 747-400ERF arrived in April.
- The delivery of 10 new-generation Boeing 747-8F freighters will now commence in 2011, the deliveries having been deferred as a result of delays to the manufacturing programme at Boeing.
- Under a supplemental agreement signed in January 2009 between our wholly owned subsidiary Cathay Pacific Services Limited (“CPSL”) and the Airport Authority of Hong Kong, our new cargo terminal at Hong Kong International Airport is now scheduled to open in mid-2013. The terminal, which will be designed, constructed and operated by CPSL, was originally due to open in the second half of 2011 but completion was deferred as a result of the economic downturn.

Chairman's Letter

The Cathay Pacific Group recorded an attributable profit of HK\$4,694 million for 2009. This compares to a loss of HK\$8,696 million the previous year. Turnover for the year fell by 22.6% to HK\$66,978 million. Earnings per share rose by HK340.3 cents to HK119.3 cents.

The main story of 2009 was the impact on our business of one of the most severe economic downturns in recent memory. The global slump resulted in extremely challenging business conditions for the Cathay Pacific Group and commercial aviation in general. While there was some pick-up in both our passenger and cargo businesses towards the end of the year as the recession began to ease, overall we saw a deep downturn in our key markets which in turn led to sharply reduced revenues.

We took a number of measures to help us address the steep downturn in business, including reducing capacity in both Cathay Pacific and Dragonair, reducing operating costs and capital expenditure, introducing an unpaid leave scheme for staff, parking a number of aircraft, working to get concessions from suppliers and requesting a deferral of new deliveries from aircraft manufacturers.

Fuel prices in the first half of the year were significantly lower than the record highs of mid-2008. However, they started to rise again in the middle of 2009, reaching uncomfortably high levels. This rise was reflected in mark-to-market gains of HK\$2,018 million recorded in 2009 in respect of fuel hedging contracts for the period 2010-2011. These gains reversed a large part of the substantial losses recorded in 2008 in respect of fuel hedging contracts. We expect the results of fuel hedging to be less volatile in future.

Cathay Pacific and Dragonair between them carried 24.6 million passengers in 2009 – a fall of 1.6% on the previous year. Our capacity fell by 3.7% compared to 2008 as we reduced frequencies and (in the case of Dragonair) temporarily suspended operations to six destinations. This in turn supported the load factor, which at 80.5% rose by 1.7 percentage points compared to 2008. Our passenger revenue fell by 20.8% to HK\$45,920 million, reflecting substantial reductions in premium traffic and in economy class yields, though economy class passenger numbers held up well. The strong US dollar in the first half of the year also contributed to the 19.5% fall in passenger yield for the year.

Cargo revenue for the Cathay Pacific Group fell by 29.9% to HK\$17,255 million in 2009, while the amount of freight carried for Cathay Pacific and Dragonair dropped by 7.1% to 1,527,948 tonnes. We reduced cargo capacity by 13.1% in response to the weakness in demand. This was reflected in a load factor of 70.8% (compared with 65.9% in 2008). Our cargo business was exceptionally weak in the first half of the year, with a significant decline in tonnage and yield in all key markets. The latter half of the year was stronger with yield increasing in October, albeit from a very low base, and rising consistently for the remainder of the year. Our cargo yield for the year fell by 26.8% to HK\$1.86.

Despite 2009 being a very difficult year for the Cathay Pacific Group, we worked hard to keep the fundamentals of our business intact. Though we cut capacity and parked a number of passenger and cargo aircraft, we have kept our network substantially intact. We also went to great efforts to ensure that the quality of our product and service was not diminished and that the passenger experience was not compromised. We continued with the rollout of our innovative three-class cabin designs for our medium- and long-haul fleet, with all aircraft fitted with the cabins by November. New aircraft continued to arrive, improving the overall efficiency of our fleets, while the remaining older, fuel-inefficient Boeing 747-200F "Classics" were retired.

A significant change in Cathay Pacific's shareholding structure took place in the second half of the year, with Air China and Swire Pacific both agreeing to increase their shareholdings by acquiring shares from CITIC Pacific. Air China acquired a 12.5% interest, taking its shareholding in Cathay Pacific to approximately 29.99%. Swire Pacific acquired a 2% interest, taking its shareholding from approximately 39.97% to approximately 41.97%. The change in shareholding benefits Cathay Pacific because we now have two strong principal shareholders, both committed to the long-term development of the aviation industry in Hong Kong and Mainland China. In February 2010, we announced a very important development in the cooperation with Air China - we had entered into a conditional framework and other agreements with Air China and others under which the parties have agreed to establish a jointly owned cargo airline. Cathay Pacific's investment in the joint venture will be funded by the sale to the joint venture company, Air China Cargo Co. Ltd. ("Air China Cargo"), of four Boeing 747-400BCF freighters and two spare engines. We expect the joint venture to begin operations in summer 2010 and it will provide the two most important cargo-generating regions in the Mainland with two highly competitive and efficient home-based carriers – Cathay Pacific in the Pearl River Delta and Air China Cargo in the Yangtze River Delta.

Cathay Pacific remains the subject of antitrust investigations and proceedings by competition authorities in various jurisdictions and continues to cooperate with these authorities and, where applicable, defend itself vigorously. These investigations are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but has made a provision of HK\$80 million in respect of such liabilities in its 2009 accounts.

We have always managed our finances in a conservative way, but our balance sheet was put under considerable pressure in 2009 by the reduction in revenue during the period. The effect of the reduction in revenue was offset by cost reductions. The balance sheet also benefited from the sale for HK\$1,901 million of part of our shareholding in Hong Kong Aircraft Engineering Company Limited ("HAECO"). The sale reduced our interest in HAECO from 27.45% to 15.00%.

While we welcomed the improvement in business in the latter part of 2009, we remain cautious about the prospects for 2010. Revenues and yields remain below levels experienced prior to the recent downturn and there has not yet been a sustained improvement in premium passenger demand which accounts for a high proportion of total revenues. There are concerns that the adverse changes which we have seen in the pattern of passenger and freight demand could be structural rather than cyclical. In addition, the cost of fuel, which rose steadily from the middle of 2009, remains stubbornly high and threatens to undermine profitability.

That said, we have many things working in our favour which will help to put us in a stronger position if the current recovery in the world economy is sustained. We launched a number of projects and initiatives at the beginning of 2009 designed to improve further the way we do things, particularly for our customers. We have a united team that is the hallmark of Cathay Pacific. We have a superb international network and an unrivalled network into Mainland China through Dragonair. Our relationship with Air China will bring many benefits in the years to come and we operate out of one of the world's premier aviation hubs, Hong Kong. We are deeply committed to our home city and remain highly confident about the future of Cathay Pacific.

Christopher Pratt

Chairman

Hong Kong, 10th March 2010

Consolidated Statement of Comprehensive Income
for the year ended 31st December 2009

	Note	2009 HK\$M	2008 (restated) HK\$M
Turnover			
Passenger services		45,920	57,964
Cargo services		17,255	24,623
Catering, recoveries and other services		3,803	3,976
Total turnover	2	66,978	86,563
Expenses			
Staff		(12,618)	(12,428)
Inflight service and passenger expenses		(2,915)	(3,336)
Landing, parking and route expenses		(10,458)	(10,823)
Fuel		(17,349)	(47,317)
Aircraft maintenance		(6,567)	(7,643)
Aircraft depreciation and operating leases		(7,978)	(7,211)
Other depreciation and operating leases		(1,103)	(1,060)
Commissions		(571)	(851)
Others		(2,940)	(3,455)
Operating expenses		(62,499)	(94,124)
Operating profit/(loss) before non-recurring items		4,479	(7,561)
Profit on disposal of investment in an associate		1,254	-
Settlement of the United States Department of Justice cargo investigations		-	(468)
Operating profit/(loss)	4	5,733	(8,029)
Finance charges		(1,435)	(2,428)
Finance income		588	1,416
Net finance charges		(847)	(1,012)
Share of profits/(losses) of associates		261	(764)
Profit/(loss) before tax		5,147	(9,805)
Taxation	5	(283)	1,333
Profit/(loss) for the year		4,864	(8,472)
Other comprehensive income			
Cash flow hedges		329	(1,035)
Revaluation surplus/(deficit) arising from available-for-sale financial assets		479	(430)
Share of other comprehensive income of associates		11	(154)
Exchange differences on translation of foreign operations		8	524
Other comprehensive income for the year, net of tax	6	827	(1,095)
Total comprehensive income for the year		5,691	(9,567)
Profit/(loss) attributable to			
Owners of Cathay Pacific		4,694	(8,696)
Minority interests		170	224
		4,864	(8,472)
Total comprehensive income attributable to			
Owners of Cathay Pacific		5,521	(9,791)
Minority interests		170	224
		5,691	(9,567)
Earnings/(loss) per share			
Basic	7	119.3¢	(221.0)¢
Diluted	7	119.3¢	(221.0)¢

Consolidated Statement of Financial Position
at 31st December 2009

	Note	2009 HK\$M	2008 (restated) HK\$M	2007 (restated) HK\$M
ASSETS AND LIABILITIES				
Non-current assets and liabilities				
Fixed assets		65,495	66,039	62,388
Intangible assets		7,850	7,782	7,782
Investments in associates		9,042	9,581	9,896
Other long-term receivables and investments		5,307	4,949	5,119
		87,694	88,351	85,185
Long-term liabilities		(40,416)	(43,221)	(40,323)
Related pledged security deposits		5,602	7,196	7,833
Net long-term liabilities		(34,814)	(36,025)	(32,490)
Other long-term payables		(1,059)	(4,606)	(1,490)
Deferred taxation		(5,255)	(4,831)	(6,621)
		(41,128)	(45,462)	(40,601)
Net non-current assets		46,566	42,889	44,584
Current assets and liabilities				
Stock		947	960	882
Trade and other receivables	9	8,161	10,647	9,817
Liquid funds		16,522	15,088	21,649
		25,630	26,695	32,348
Current portion of long-term liabilities		(9,023)	(4,556)	(4,788)
Related pledged security deposits		1,195	301	910
Net current portion of long-term liabilities		(7,828)	(4,255)	(3,878)
Trade and other payables	10	(12,965)	(17,722)	(12,538)
Unearned transportation revenue		(8,075)	(8,649)	(8,792)
Taxation		(943)	(2,129)	(2,475)
		(29,811)	(32,755)	(27,683)
Net current (liabilities)/assets		(4,181)	(6,060)	4,665
Net assets		42,385	36,829	49,249
CAPITAL AND RESERVES				
Share capital	11	787	787	788
Reserves		41,451	35,922	48,283
Funds attributable to owners of Cathay Pacific		42,238	36,709	49,071
Minority interests		147	120	178
Total equity		42,385	36,829	49,249

Notes:
1. Basis of preparation and accounting policies

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

The following new and revised HKAS and HKFRS issued by the HKICPA were adopted:

(a) HK (IFRIC) Interpretation 13 “Customer Loyalty Programmes”

Prior to adopting HK (IFRIC) Interpretation 13, the incremental cost of providing awards in exchange for redemption of miles earned by members was accrued as an operating cost and a liability after allowing for miles which were not expected to be redeemed. As members redeem their miles the liability was reduced to reflect the reduction in the outstanding obligation. Effective from 1st January 2009, part of the revenue from the initial sales transaction equal to the awards at their fair value is deferred until the awards are redeemed, and for redemption on the Group’s flights until the transportation service is provided.

The effect of this change in accounting treatment is as follows:

	Group	
	2009	2008
	HK\$M	HK\$M
Consolidated statement of comprehensive income		
<u>Turnover</u>		
Increase/(decrease) in passengers services	82	(82)
Increase in catering, recoveries and other services	132	67
<u>Expenses</u>		
Decrease in landing, parking and route expenses	202	216
Increase in others	(333)	(301)
Increase in taxation	(9)	(4)
Increase/(decrease) in profit attributable to owners of Cathay Pacific	74	(104)
Increase/(decrease) in earnings per share	1.9¢	(3.5)¢

	Group		
	2009	2008	2007
	HK\$M	HK\$M	HK\$M
Consolidated statement of financial position			
Decrease in deferred taxation	137	146	150
Increase/(decrease) in trade and other receivables	3	2	(11)
Decrease in trade and other payables	1,280	1,199	1,079
Increase in unearned transportation revenue	(2,770)	(2,771)	(2,538)
Decrease in reserves	(1,350)	(1,424)	(1,320)

During the year ended 31st December 2008, Air China made certain adjustments to its opening retained profits as at 1st January 2008 on adopting IFRIC 13 “Customer Loyalty Programmes”. Accordingly, adjustments have been made to decrease the opening retained profits as at 1st January 2008 and 2009 by HK\$158 million and HK\$192 million.

1. Basis of preparation and accounting policies (continued)

(b) HKAS 1 (revised) "Presentation of Financial Statements"

Derivative financial assets and liabilities were previously classified as current assets and current liabilities. However, with the adoption of HKAS 1 (revised), derivative financial instruments that are not expected to be realised within 12 months after the reporting period are classified as non-current assets or non-current liabilities. The effects of the reclassification of derivative financial instruments as at 31st December for 2007 to 2009 are as follows:

	2009 HK\$M	2008 HK\$M	2007 HK\$M
Increase in other long-term receivables and investments	1,891	1,862	1,600
Increase in long-term payables	843	4,325	1,222
Decrease in trade, other receivables and other assets	1,891	1,365	1,548
Decrease in trade and other payables	843	3,828	1,170

The above changes have been applied retrospectively and 2008 and 2007 comparatives have been restated accordingly.

2. Turnover

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

3. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2009 HK\$M	2008 (restated) HK\$M	2009 HK\$M	2008 (restated) HK\$M	2009 HK\$M	2008 (restated) HK\$M	2009 HK\$M	2008 (restated) HK\$M
Profit or loss								
Sales to external customers	66,080	85,390	898	1,173			66,978	86,563
Inter-segment sales	-	16	1,252	1,343			1,252	1,359
Segment revenue	66,080	85,406	2,150	2,516			68,230	87,922
Segment results	5,638	(8,218)	95	189			5,733	(8,029)
Net finance charges	(839)	(1,012)	(8)	-			(847)	(1,012)
	4,799	(9,230)	87	189			4,886	(9,041)
Share of profits/(losses) of associates					261	(764)	261	(764)
Profit/(loss) before tax							5,147	(9,805)
Taxation	(269)	1,356	(14)	(23)			(283)	1,333
Profit/(loss) for the year							4,864	(8,472)

3. Segment information (continued)

	Airline business			Non-airline business			Unallocated			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Assets and liabilities												
Segment assets	103,000	104,162	105,910	1,282	1,303	1,727				104,282	105,465	107,637
Investment in associates							9,042	9,581	9,896	9,042	9,581	9,896
Total assets	103,000	104,162	105,910	1,282	1,303	1,727	9,042	9,581	9,896	113,324	115,046	117,533
Segment liabilities	70,651	77,981	67,874	288	236	410				70,939	78,217	68,284
Net assets										42,385	36,829	49,249

	Airline business		Non-airline business		Unallocated		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Other segment information								
Depreciation and amortisation	5,534	5,040	150	155	-	-	5,684	5,195
Purchase of fixed and intangible assets	6,745	8,509	31	719	-	-	6,776	9,228

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

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

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

(b) Geographical information

	2009	2008
	(restated)	(restated)
	HK\$M	HK\$M
Turnover by origin of sale:		
North Asia		
- Hong Kong and Mainland China	28,880	35,968
- Japan, Korea and Taiwan	8,413	12,176
Southwest Pacific and South Africa	4,712	6,136
Europe	7,920	10,658
Southeast Asia and Middle East	8,601	9,922
North America	8,452	11,703
	66,978	86,563

Countries included in each region are defined in the 2009 Annual Report. Geographical segment results and segment net assets are not disclosed for the reasons set out in the 2009 Annual Report.

4. Operating profit/(loss)

	2009 HK\$M	2008 (restated) HK\$M
Operating profit/(loss) has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
- Leased	1,932	1,939
- Owned	3,720	3,230
Amortisation of intangible assets	32	26
Operating lease rentals		
- Land and buildings	668	613
- Aircraft and related equipment	2,707	2,436
- Others	22	27
Operating lease income		
- Aircraft and related equipment	-	(48)
Cost of stock expensed	1,892	1,836
Exchange differences	(344)	(30)
Auditors' remuneration	10	10
Net (gain)/loss on financial assets and liabilities classified as held for trading	(3,082)	7,374
Net (gain)/loss on financial assets and liabilities designated as at fair value through profit and loss	(58)	531
Income from unlisted investments	(170)	(114)
Income from listed investments	(5)	(3)

5. Taxation

	2009 HK\$M	2008 (restated) HK\$M
Current tax expenses		
- Hong Kong profits tax	36	41
- Overseas tax	264	330
- Over provisions for prior years	(259)	(234)
Deferred tax		
- Origination and reversal of temporary differences	242	(1,394)
- Decrease in tax rate	-	(76)
	283	(1,333)

Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations (see note 30(d) to the accounts in the 2009 Annual Report).

5. Taxation (continued)

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

	2009 HK\$M	2008 (restated) HK\$M
Consolidated profit/(loss) before tax	5,147	(9,805)
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	(849)	1,618
Expenses not deductible for tax purposes	(229)	(199)
Tax provisions over provided in prior years	259	234
Effect of different tax rates in overseas jurisdictions	320	(808)
(Unused tax losses not recognised)/tax losses recognised	(19)	343
Income not subject to tax	235	69
Effect on opening deferred tax balances resulting from a change in tax rate	-	76
Tax (charge)/credit	(283)	1,333

Further information on deferred tax is shown in note 18 to the accounts in the 2009 Annual Report.

6. Other comprehensive income

	2009 HK\$M	2008 HK\$M
Cash flow hedges		
- recognised during the year	6	(1,275)
- transferred to profit and loss	360	132
- deferred tax recognised	(37)	108
Revaluation surplus/(deficit) arising from available-for-sale financial assets	479	(430)
Share of other comprehensive income of associates	11	(154)
Exchange differences on translation of foreign operations		
- recognised during the year	8	529
- transferred to profit and loss	-	(5)
Other comprehensive income for the year	827	(1,095)

7. Earnings/loss per share

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to owners of Cathay Pacific of HK\$4,694 million (2008 (restated): a loss of HK\$8,696 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2008: 3,934 million) shares and 3,934 million (2008: 3,935 million) shares respectively with the latter adjusted for the effects of the share options.

	2009 Million	2008 Million
Weighted average number of ordinary shares used in calculating basic earnings/loss per share	3,934	3,934
Deemed issue of ordinary shares for no consideration	-	1
Weighted average number of ordinary shares used in calculating diluted earnings/loss per share	3,934	3,935

8. Dividends

	2009	2008
	HK\$M	HK\$M
2009 no interim dividend paid (2008: HK¢3 per share)	-	118
2009 final dividends proposed on 10th March 2010 of HK¢10 per share (2008: nil)	393	-
	393	118

We recommend the payment of a final dividend of HK¢10 per share for the year ended 31st December 2009. As no interim dividend was declared for the period ended 30th June 2009, this makes a total dividend for the year of HK¢10 per share. This represents a total distribution for the year of HK\$393 million. Subject to shareholders' approval of the final dividend at the Annual General Meeting on 12th May 2010, payment of the final dividend will be made on 1st June 2010 to shareholders registered at the close of business on the record date, 12th May 2010.

The register of members will be closed from 7th May 2010 to 12th May 2010, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 6th May 2010.

9. Trade and other receivables

	Group		
	2009	2008	2007
	HK\$M	(restated) HK\$M	(restated) HK\$M
Trade debtors	4,771	4,640	4,938
Derivative financial assets – current portion	746	2,463	1,118
Other receivables and prepayments	2,631	3,496	3,698
Due from associates	13	48	63
	8,161	10,647	9,817

As at 31st December 2009, total derivative financial assets of the Group accounted for as held for trading amounted to HK\$1,123 million (2008: HK\$3,300 million).

	Group	
	2009	2008
	HK\$M	HK\$M
Analysis of trade debtors by age:		
Current	4,741	4,558
One to three months overdue	27	69
More than three months overdue	3	13
	4,771	4,640

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 guarantee or other monetary collateral.

9. Trade and other receivables (continued)

The movement in the provision for bad debt included in trade debtors during the year was as follows:

	Group	
	2009 HK\$M	2008 HK\$M
At 1st January	169	169
Amounts written back	(8)	(2)
Impairment loss recognised	2	2
At 31st December	163	169

10. Trade and other payables

	Group		
	2009 HK\$M	2008 (restated) HK\$M	2007 (restated) HK\$M
Trade creditors	4,832	5,571	5,546
Derivative financial liabilities	1,884	6,639	933
Other payables	5,970	5,297	5,704
Due to associates	131	170	197
Due to other related companies	137	39	146
Bank overdrafts – unsecured	11	6	12
	12,965	17,722	12,538

As at 31st December 2009, total derivative financial liabilities of the Group accounted for as held for trading amounted to HK\$1,477 million (2008: HK\$9,216 million).

	Group	
	2009 HK\$M	2008 HK\$M
Analysis of trade creditors by age:		
Current	4,713	5,321
One to three months overdue	106	240
More than three months overdue	13	10
	4,832	5,571

11. Share capital

During the year under review, the Group did not purchase, sell or redeem any shares in the Company. At 31st December 2009, 3,933,844,572 shares were in issue (31st December 2008: 3,932,746,072 shares).

The Company adopted a share option scheme on 10th March 1999. During the year, 1,098,500 shares were issued under the scheme. Details of the scheme can be found in note 22 to the accounts in the 2009 Annual Report.

12. Corporate governance

Cathay Pacific Airways is committed to maintaining a high standard of corporate governance and devotes considerable effort to identifying and formalising best practices of corporate governance. The Company has complied throughout the year with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules. The Company has also put in place corporate governance practices to meet most of the recommended best practices in the CG Code.

The 2009 annual result has been reviewed by the Audit Committee. Details of Corporate Governance can be found in the 2009 Annual Report.

13. Annual Report

The 2009 Annual Report containing all the information required by the Listing Rules of the Stock Exchange will be published on the Stock Exchange's website and the Company's website www.cathaypacific.com by 1st April 2010. It will be sent to shareholders by 7th April 2010.

Operating expenses

	Group			Cathay Pacific and Dragonair		
	2009	2008	Change	2009	2008	Change
HK\$M	(restated) HK\$M	HK\$M		HK\$M	(restated) HK\$M	
Staff	12,618	12,428	+1.5%	11,515	11,305	+1.9%
Inflight service and passenger expenses	2,915	3,336	-12.6%	2,915	3,336	-12.6%
Landing, parking and route expenses	10,458	10,823	-3.4%	10,281	10,777	-4.6%
Fuel	17,349	47,317	-63.3%	16,937	46,637	-63.7%
Aircraft maintenance	6,567	7,643	-14.1%	6,411	7,511	-14.6%
Aircraft depreciation and operating leases	7,978	7,211	+10.6%	7,796	7,024	+11.0%
Other depreciation and operating leases	1,103	1,060	+4.1%	867	814	+6.5%
Commissions	571	851	-32.9%	571	851	-32.9%
Exchange gain	(344)	(30)	N/A	(356)	(13)	N/A
Others	3,284	3,485	-5.8%	3,628	3,571	+1.6%
Operating expenses	62,499	94,124	-33.6%	60,565	91,813	-34.0%
Net finance charges	847	1,012	-16.3%	781	907	-13.9%
Total operating expenses	63,346	95,136	-33.4%	61,346	92,720	-33.8%

- Group operating expenses decreased by 33.4% to HK\$63,346 million.
- The combined cost per ATK of Cathay Pacific and Dragonair decreased from HK\$3.80 to HK\$2.76. This principally reflected lower average fuel prices and mark to market gains on fuel hedging contracts.

Cathay Pacific and Dragonair operating results analysis

	2009	2008
	HK\$M	HK\$M
Airlines operating profit/(loss) before fuel hedging, non-recurring items and tax	285	(1,440)
Profit on disposal of HAECO shares	1,254	-
Realised and unrealised fuel hedging gains/(losses)	2,758	(7,970)
Settlement of the United States Department of Justice Cargo Investigations	-	(468)
Tax (charge)/credit	(170)	1,476
Airlines profit/(loss) after tax	4,127	(8,402)
Share of profit/(loss) from subsidiaries and associates	567	(294)
Consolidated profit/(loss)	4,694	(8,696)

The change in the airlines' operating profit/(loss) before fuel hedging, non-recurring items and tax can be analysed as follows:

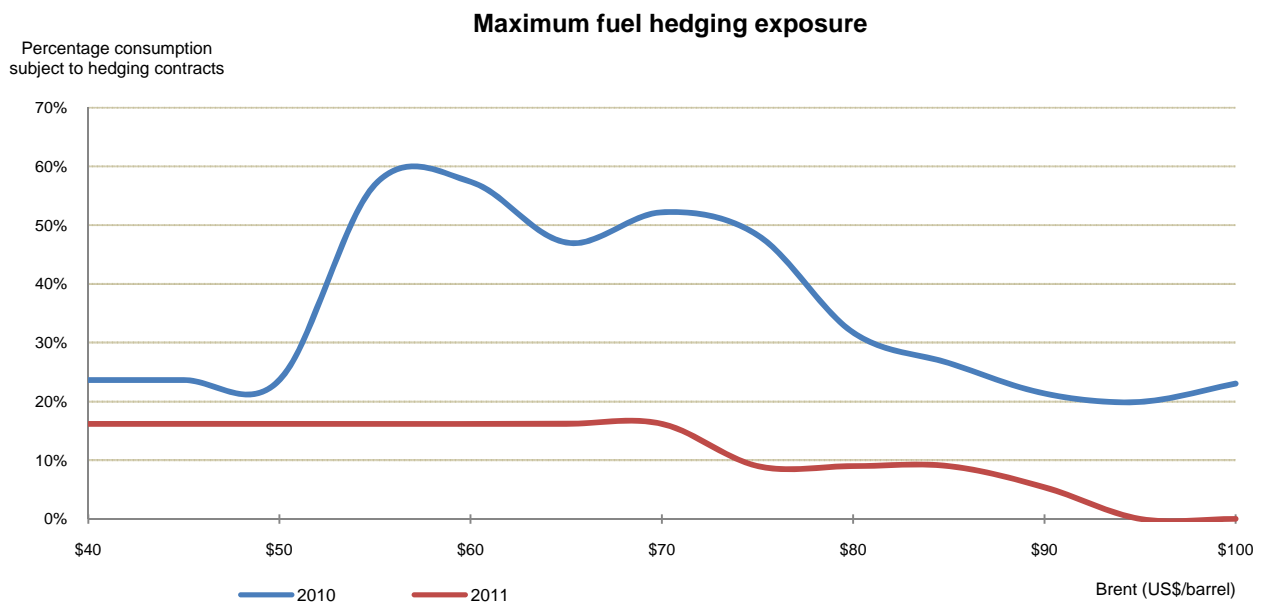
	HK\$M	
2008 airlines operating loss	(1,440)	
Passenger and cargo turnover	(19,127)	Passenger <ul style="list-style-type: none"> - Decreased HK\$2,157 million due to a 3.7% decrease in capacity. - A 1.7% points increase in load factor contributed to an increase of HK\$1,183 million. - HK\$11,070 million decrease with a 19.5% decrease in yield partly due to a reduction in fuel surcharges. Cargo <ul style="list-style-type: none"> - Decreased HK\$2,938 million due to a 13.1% decrease in capacity. - A 4.9% points increase in load factor contributed to an increase of HK\$1,452 million. - HK\$5,597 million decrease with a 26.8% decrease in yield partly due to a reduction in fuel surcharges.
Recoveries and other services	206	
Staff	(210)	- Increased due to provision for bonus partly offset by savings from no pay leave.
Inflight service and passenger expenses	421	- Less expenditure due to a 1.6% decrease in passenger numbers.
Landing, parking and route expenses	496	- Decreased as a result of reduction in capacity.
Fuel	18,972	- Fuel costs decreased due to a 44.3% decrease in the average into-plane fuel price to US\$73 per barrel and a 7.8% decrease in consumption to 35.3 million barrels.
Aircraft maintenance	1,100	- Decreased with capacity reduction partly offset by provision for return condition.
Depreciation and operating leases	(825)	- Increased due to the new aircraft deliveries.
Net finance charges	126	- Decreased as a result of lower interest rates partly offset by lower return on investment funds.
Others	566	
2009 airlines operating profit before fuel hedging, non-recurring items and tax	285	

Fuel expenditure and hedging

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

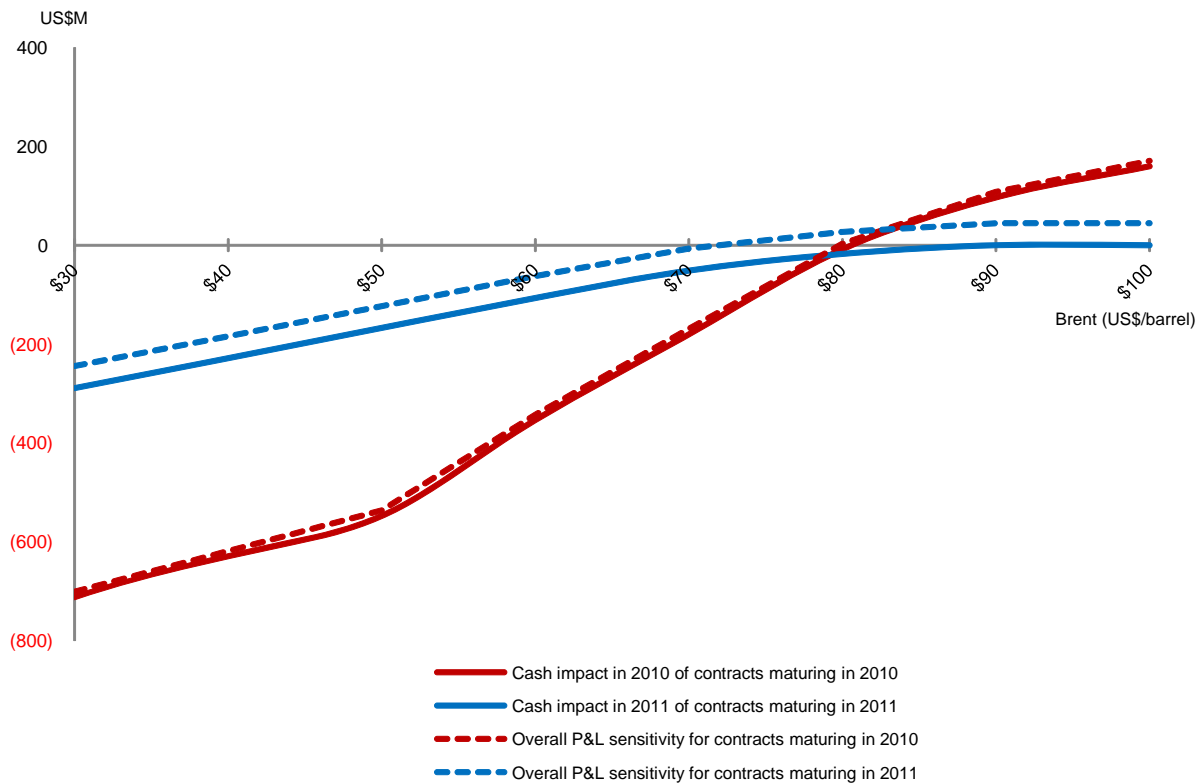
	2009 HK\$M	2008 HK\$M
Gross fuel cost	20,107	39,347
Realised hedging (gains)/losses	(740)	309
Unrealised mark to market (gains)/losses	(2,018)	7,661
Net fuel cost	17,349	47,317
Settlement and premium paid	3,180	1,458

The Group's maximum fuel hedging exposure and a sensitivity analysis of both the cash and the profit and loss impact of fuel price movements on fuel hedging contracts as at 31st December 2009 are set out below:



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

Sensitivity analysis of cash and profit and loss impact of fuel price movements on fuel hedging contracts *



At 31st December 2009 the Group had entered into fuel derivatives contracts which expire in 2010 and 2011. The chart above shows, for the range of specified reasonably possible average fuel prices, the estimated amount of cash inflow or outflow from the settlement of these contracts in 2010 and 2011, and the estimated impact on the Group's profit and loss split according to the maturity of the contracts. The periods in which profit or loss would actually be affected varies contract by contract. For contracts which are accounted for as cash flow hedges, profit or loss would generally be affected in the period the contracts mature. For contracts which are not accounted for as cash flow hedges, profit or loss for each year would be affected by the change in mark to market valuation in that year.

If the Brent price is at a level of US\$40 per barrel in 2010 and 2011, then the Group would be required to pay a total of about US\$850 million to settle these contracts and the profit would be reduced accordingly over the two years. If the price of Brent in 2010 and 2011 is approximately US\$80 per barrel there will be no further net cash impact and mark to market losses recognised before would then be released in the corresponding years.

In addition to the estimated impact of changes of fuel prices on fuel hedging contracts shown above, the Group's operating profit is affected by the actual cost of buying fuel and the level of fuel surcharges.

* This information supplements note 31(c) (iii) to the accounts in the 2009 Annual Report.

Assets

- Total assets as at 31st December 2009 were HK\$113,324 million.
- During the year, additions to fixed assets were HK\$6,676 million, comprising HK\$6,320 million for aircraft and related equipment, HK\$249 million for buildings and HK\$107 million for other equipment.

Borrowings and capital

- Borrowings increased by 5.9% to HK\$42,642 million from HK\$40,280 million in 2008.
- Borrowings are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars, Japanese yen and Euros, and are fully repayable by 2023 with 55% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 48.2% of which are denominated in US dollars, increased by 9.5% to HK\$16,522 million.
- Net borrowings increased by 3.7% to HK\$26,131 million.
- Funds attributable to the owners of Cathay Pacific increased by 15.1% to HK\$42,238 million.
- The net debt/equity ratio decreased from 0.69 times to 0.62 times.

Fleet profile*

Aircraft type	Number as at 31st December 2009			Total	Firm orders			Total	Expiry of operating leases						Purchase rights
	Leased				'10	'11	'12 and beyond		'10	'11	'12	'13	'14	'15 and beyond	
	Owned	Finance	Operating												
Aircraft operated by Cathay Pacific:															
A330-300	9	17	6	32	1	3	4	8	3				3		
A340-300	6	5	4	15					4						
747-400	17		6	23					1	2			3		
747-400F	2	4		6											
747-400BCF	7	1	5	13							3	1	1		
747-400ERF		6		6											
747-8F					6	4		10							
777-200	2	3		5											
777-300	3	9		12											
777-300ER	2	4	8	14	4	6	6	16					8	20 ^(a)	
Total	48	49	29	126	5	15	14	34	1	7	2	3	1	15	20
Aircraft operated by Dragonair:															
A320-200	4	1	4	9	2			2 ^(b)	1	2				1	
A321-200	2		4	6					1	2				1	
A330-300	4	1	9	14					1	2	3	3			
Total	10	2	17	29	2			2	3	6	3	3		2	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6		8											
Grand total	60	57	46	163	7	15	14	36	4	13	5	6	1	17	20

* Includes parked aircraft.

(a) Purchase rights for aircraft delivered by 2017.

(b) Two aircraft on 8 year operating leases.

Review of subsidiaries and associates

- AHK Air Hong Kong Limited (“Air Hong Kong”) recorded a lower profit in 2009 compared with last year due to a substantial reduction in yield. With an enhanced network, Air Hong Kong’s capacity increased by 16%. Load factor improved marginally by 0.3 percentage points, yet yield suffered a reduction of 24%.
- Cathay Pacific Catering Services (H.K.) Limited produced 20.9 million meals in 2009. The decline in business volume and cost saving by airlines reduced the profit margin from that achieved in 2008 despite effective efforts to reduce operating costs. The performance of flight kitchens in Asia (outside Hong Kong) was disappointing, with lower profits than in 2008. The Canadian operations showed an improvement in 2009.
- Air China Limited (“Air China”), in which Cathay Pacific owns 18.1%, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China. The Group’s share of Air China’s profit is based on accounts drawn up three months in arrears and consequently the 2009 annual results include Air China’s results for the 12 months ended 30th September 2009. This excludes the Group’s share of Air China’s fuel hedging losses of HK\$1 billion (incurred in the fourth quarter of 2008) which were included in the Group’s 2008 results. In February 2010, the Group announced that we had entered into a conditional framework and other agreements with Air China and others under which the parties have agreed to establish a jointly owned cargo airline using Air China’s wholly owned subsidiary, Air China Cargo, as a platform. The joint venture plans to commence operations in the summer, with Beijing and Shanghai as its principal operating bases.
- Hong Kong Aircraft Engineering Company Limited achieved a consolidated profit attributable to its shareholders of HK\$688 million in 2009, a reduction of 39.5% compared with 2008. The decrease in profit primarily reflected the reduced demand for heavy airframe and line maintenance services following the deterioration in aviation market conditions. Business activity weakened substantially, particularly in the second half of 2009, as airlines continued to reduce expenditure and ground aircraft.

Corporate Responsibility

- Our Corporate Social Responsibility report for 2008 earned an A+ Global Reporting Initiative Rating, verified by consultancy firm Environmental Resources Management.
- In February 2009 we hosted the first formal meeting of the Aviation Global Deal Group, which aims to contribute to the debate about the inclusion of emissions from international aviation in a global climate change treaty.
- In June we announced our support for IATA's commitment to a 1.5% per annum fuel efficiency improvement until 2020; carbon neutral growth by 2020 and a 50% reduction in carbon emissions by 2050 from 2005 levels.
- We bought 20,000 tonnes of offsets from Climate Care in May for our FLY greener carbon offset programme. These covered contributions to a natural gas project in Beijing, wind farm projects in Heilongjiang and a run-of-river hydro project in Sanchawan, Mainland China.
- Cathay Pacific and its subsidiaries employed some 26,700 people worldwide at the end of 2009. Of those 18,500 worked for the airline itself, with 12,500 employed in Hong Kong. Dragonair employed a total of 2,400 staff at the end of 2009. We regularly review our human resource and remuneration policies in the light of local legislation, industry practice, market conditions and the performance of individuals and the Company.

The Directors of the Company as at the date of this announcement are:

Executive Directors: Christopher Pratt (Chairman), James E. Hughes-Hallett, Ian Shiu, John Slosar and Tony Tyler;

Non-Executive Directors: Cai Jianjiang, Philip Chen, Fan Cheng, James W.J. Hughes-Hallett, Kong Dong, Peter Kilgour, Robert Woods and Zhang Lan; and

Independent Non-Executive Directors: Irene Lee, Jack So, Tung Chee Chen and Peter Wong.

By Order of the Board
Cathay Pacific Airways Limited
Christopher Pratt
Chairman
Hong Kong, 10th March 2010

Website: www.cathaypacific.com