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CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

Announcement

2021 Annual Results

Financial and Operational Highlights

Group Financial Statistics

Results		2021	2020	Change
Revenue	<i>HK\$ million</i>	45,587	46,934	-2.9%
Loss attributable to the shareholders of Cathay Pacific	<i>HK\$ million</i>	(5,527)	(21,648)	-74.5%
Loss per ordinary share	<i>HK cents</i>	(95.1)	(424.3)	-77.6%
Dividend per ordinary share	<i>HK\$</i>	-	-	-
Loss margin	<i>%</i>	(12.1)	(46.1)	+34.0%pt
Financial position				
Funds attributable to the shareholders of Cathay Pacific	<i>HK\$ million</i>	72,244	73,257	-1.4%
Net borrowings ^(a)	<i>HK\$ million</i>	70,570	73,788	-4.4%
Available unrestricted liquidity	<i>HK\$ million</i>	30,250	28,593	+5.8%
Ordinary shareholders' funds per ordinary share ^(b)	<i>HK\$</i>	8.1	8.3	-2.4%
Net debt/equity ratio ^(a)	<i>Times</i>	0.98	1.01	-0.03 times

Operating Statistics – Cathay Pacific

		2021	2020*	Change
Available tonne kilometres (“ATK”)	<i>Million</i>	11,354	14,620	-22.3%
Available seat kilometres (“ASK”)	<i>Million</i>	13,228	34,609	-61.8%
Available cargo tonne kilometres (“AFTK”)	<i>Million</i>	10,094	11,329	-10.9%
Revenue tonne kilometres (“RTK”)	<i>Million</i>	8,615	10,220	-15.7%
Passenger revenue per ASK	<i>HK cents</i>	32.9	32.7	+0.6%
Revenue passenger kilometres (“RPK”)	<i>Million</i>	4,120	20,079	-79.5%
Revenue passengers carried	<i>'000</i>	717	4,631	-84.5%
Passenger load factor	<i>%</i>	31.1	58.0	-26.9%pt
Passenger yield	<i>HK cents</i>	105.5	56.3	+87.4%
Cargo revenue per AFTK	<i>HK\$</i>	3.21	2.17	+47.9%
Cargo revenue tonne kilometres (“RFTK”)	<i>Million</i>	8,220	8,309	-1.1%
Cargo carried	<i>'000 tonnes</i>	1,333	1,332	+0.1%
Cargo load factor	<i>%</i>	81.4	73.3	+8.1%pt
Cargo yield	<i>HK\$</i>	3.94	2.96	+33.1%
Cost per ATK (with fuel) ^(c)	<i>HK\$</i>	3.88	4.14	-6.3%
Fuel consumption per million RTK	<i>Barrels</i>	1,612	1,708	-5.6%
Fuel consumption per million ATK	<i>Barrels</i>	1,223	1,195	+2.3%
Cost per ATK (without fuel) ^(c)	<i>HK\$</i>	3.32	3.41	-2.6%
Underlying ^(d) cost per ATK (without fuel)	<i>HK\$</i>	3.24	3.06	+5.9%
ATK per HK\$'000 staff cost	<i>Unit</i>	1,174	1,074	+9.3%
ATK per staff	<i>'000</i>	679	752	-9.7%
Aircraft utilisation (including parked aircraft)	<i>Hours per day</i>	3.4	4.3	-20.9%
On-time performance	<i>%</i>	86.2	86.7	-0.5%pt
Average age of fleet	<i>Years</i>	10.5	10.1	+0.4 years
GHG emissions	<i>Million tonnes of CO₂e</i>	5.6	7.0	-20.0%
GHG emissions per ATK	<i>Grammes of CO₂e</i>	491	480	+2.3%
Lost time injury rate	<i>Number of injuries per 100 full-time equivalent employees</i>	0.81	2.28	-64.5%

* Included Cathay Dragon

- (a) Net borrowings and the net debt/equity ratio excluding leases without asset transfer components are HK\$53,979 million and 0.75 respectively. Further details can be found in note 12 below.
- (b) Ordinary shareholders' funds are arrived at after deducting preference share capital of HK\$19,500 million and unpaid cumulative dividends attributable to the preference shareholder of HK\$824 million and HK\$228 million as at 31st December 2021 and 31st December 2020 respectively.
- (c) Cost per ATK represents total operating costs, including impairment and restructuring costs, over ATK for the period.
- (d) Underlying costs exclude impairment and related charges, restructuring costs and gains on deemed disposal of an associate.

Chairman's Statement

In our previous annual report, I wrote that 2020 was the most challenging year in our history. The unprecedented disruption caused by COVID-19 to the global aviation industry and the subsequent travel and operational restrictions around the world have continued to affect our business severely. Notwithstanding these challenges, the situation did improve as 2021 progressed.

The second half of the year is traditionally stronger than the first half, and this was the case for us in 2021. The exceptional performance of our cargo business, especially during the second-half peak season, was extremely encouraging. Nevertheless, we continued to face serious challenges and despite the considerable improvement in results in the second half of the year, our overall loss for the full year was still substantial.

The Cathay Pacific Group's attributable loss was HK\$5,527 million in 2021 (2020: loss of HK\$21,648 million). The loss per ordinary share in 2021 was HK95.1 cents (2020: loss per ordinary share of HK424.3 cents). The Group's attributable profit was HK\$2,038 million in the second half of 2021 (2021 first half: loss of HK\$7,565 million; 2020 second half: loss of HK\$11,783 million). Cathay Pacific reported an attributable profit of HK\$3,303 million in the second half of 2021 (2021 first half: loss of HK\$5,031 million; 2020 second half: loss of HK\$10,032 million).

The loss for 2021 includes impairment and related charges of HK\$832 million, mainly relating to 12 aircraft that are unlikely to re-enter meaningful economic service before they retire or are returned to lessors, HK\$385 million in restructuring costs and a HK\$210 million gain on the dilution of an associate interest in Air China Cargo. This compares to impairment and related charges of HK\$4,056 million in 2020 relating to 34 aircraft (and to certain airline service subsidiaries' assets) and HK\$2,383 million of restructuring costs. Adjusting for these exceptional items, the Cathay Pacific Group's attributable loss for 2021 was HK\$4,520 million (2020: loss of HK\$15,209 million), and Cathay Pacific's loss for 2021 was HK\$776 million (2020: loss of HK\$12,195 million).

Cathay Pacific celebrated an important milestone in our history in 2021 as we marked 75 years of bringing people together as Hong Kong's home airline. Though we have certainly experienced our share of challenges over the years, COVID-19 key among them, we have also had incredible successes. Throughout our history, we have connected people to new destinations, welcomed the arrival of state-of-the-art aircraft and launched exciting innovations. As our home city has grown, so have we, and we are immensely proud to have represented Hong Kong over the past 75 years and to have helped it grow into one of the leading international aviation hubs in the world.

But 2021 was not just a year for reflecting on our past. The launch of "Cathay", our new premium travel lifestyle brand, has opened an exciting new chapter. Cathay aims to bring all that we love about travel together with everyday lifestyle. This will simplify the way our customers interact with us, including how they earn status and use miles, and will enable us to engage with them not only when they fly with us, but every day.

We also celebrated the inaugural flight of the newest addition to our fleet, the Airbus A321neo, in August. These state-of-the-art passenger aircraft provide the best short-haul experience in the world. Cathay Pacific has already taken delivery of five A321neos and will have 16 in its fleet by the end of 2023.

We continued our commitment to achieving greener aviation by pledging to use sustainable aviation fuel for 10% of Cathay Pacific's total fuel consumption by 2030, and by becoming a founding member of the Aviation Climate Taskforce, a new non-profit organisation founded to tackle the challenge of eliminating carbon emissions in aviation through innovation and collaboration. These initiatives will help the Group achieve its goal of net-zero carbon emissions by 2050.

Business performance of Cathay Pacific

The introduction of strict quarantine requirements for Hong Kong-based aircrew in February 2021 had a substantial impact on our travel business. To operate the remaining schedules, we introduced voluntary closed-loop duty cycles for our Hong Kong-based aircrew, comprising a 21-day duty cycle followed by a 14-day quarantine period. These arrangements have been very demanding for our aircrew and we are incredibly appreciative to them for their support and their tireless professionalism in the face of extremely challenging circumstances.

Operational and travel restrictions remained in place throughout the year, and this heavily constrained our ability to operate more flights. We reduced our flight schedule towards the end of December in response to the latest crew quarantine requirements in Hong Kong, and ended the year operating a considerably smaller amount of our pre-COVID-19 passenger capacity than we had planned.

Comparing 2021 with 2020 as a whole, the operating performance in 2021 was generally weaker due in large part to the first two months of 2020 being relatively strong ahead of the full impact of COVID-19. Passenger revenue decreased by 61.6% to HK\$4,346 million in 2021 compared with 2020. Revenue passenger kilometres (RPK) decreased by 79.5%. Capacity, measured in available seat kilometres (ASK), was down by 61.8%. We carried 717 thousand passengers, an average of 1,965 per day, 84.5% fewer than in 2020. Passenger load factor was 31.1% compared with 58.0% in 2020.

Our cargo business performed exceptionally well. Cargo revenue in 2021 was HK\$32,377 million, an increase of 31.8% compared to 2020. Cargo revenue tonne kilometres (RFTK) decreased by 1.1%. Capacity, measured by available cargo tonne kilometres (AFTK), decreased by 10.9%. Load factor increased by 8.1 percentage points to 81.4%. Yield increased by 33.1% to HK\$3.94.

Cargo demand grew ahead of the traditional peak season in the second half of the year. In the months leading up to the end of 2021, we operated our freighter fleet at peak capacity, and supplemented our cargo capacity with additional cargo-only passenger flight operations. We also operated six of our Boeing 777-300ER passenger aircraft that have been partially converted into “freighters” by removing some of the seats in the passenger cabins to provide additional cargo-carrying capacity. In October, we carried more than 136,000 tonnes of cargo – the most we have carried in a single month since the start of COVID-19. Our airlines have carried more than 190 million COVID-19 vaccines since the start of COVID-19.

We remained focused on effective cash and cost management. Executive pay was cut for the whole of 2021 and we introduced a third unpaid leave scheme in the first half of the year, with an 80% voluntary uptake. Employee furlough, leave without pay, voluntary separation and early retirement schemes were implemented for a broad range of employee groups, and we are extremely grateful to all of our employees who participated in such schemes. Overall, our non-fuel costs decreased by 24.4% to HK\$37,708 million. Cathay Pacific's total fuel costs (before the effect of fuel hedging) increased by HK\$927 million (or 11.9%) compared to 2020. This reflected increased fuel prices.

Business performance of other subsidiaries and associates

HK Express reported a loss of HK\$1,978 million for 2021 (2020: loss of HK\$1,723 million). The results were adversely affected by low demand for passenger travel and by COVID-19-related travel restrictions and quarantine requirements, including those affecting Hong Kong-based aircrew.

Air Hong Kong recorded a profit in 2021, benefitting from strong cargo demand. The all-cargo airline flew extra sectors for Cathay Pacific.

Our airline services subsidiaries' financial performance was better than in 2020.

Air China (accounted for three months in arrears) was adversely affected by COVID-19. Its results were worse than those in 2020.

Financial position

The exceptionally strong cargo performance, together with our continued focus on effective cash and cost management, had a positive impact on our monthly operating cash burn, to the extent that we were marginally cash generative in the second half of 2021.

At 31st December 2021, our available unrestricted liquidity balance was HK\$30.3 billion. During the year we raised HK\$6.7 billion from a convertible bond issue and US\$650 million (equivalent to HK\$5.1 billion) from a straight bond issue under our medium-term note programme. We welcomed the Hong Kong SAR Government's agreement to extend the drawdown period of the HK\$7.8 billion loan facility made available as part of our 2020 recapitalisation by 12 months to June 2022. This provides us with more flexibility to manage our liquidity position.

Prospects

We have had an extremely challenging start to 2022. Following the emergence of the Omicron variant, the HKSAR Government tightened the quarantine requirements for Hong Kong-based aircrew, notably those operating cargo flights, and temporarily banned all flights from nine countries, including the UK and the US, which are major markets for us. Passengers from high-risk places were banned from transiting through Hong Kong International Airport. All this constrained our ability to operate flights as planned. As a result, we expect to operate around 2% of pre-COVID-19 passenger flight capacity, and our cargo flight capacity is likely to remain less than one-third of pre-COVID-19 levels while current restrictions remain in place. We are trying our best to maintain our passenger and cargo networks as far as possible and will try to increase our cargo capacity as much as practicable.

As Hong Kong goes through a particularly challenging phase of this pandemic, I'd like to express my empathy and concern for all the people across Hong Kong who are affected. In the early days of COVID-19, Cathay Pacific crew bravely volunteered to operate evacuation flights to bring Hong Kong people home, and during this latest phase, we are doing everything we can to support the city, bringing in vaccines, rapid antigen test kits and essential food and medical supplies, and working with the authorities to support the pandemic response.

As Hong Kong's home airline, we are resolutely committed to keeping the flow of people and cargo between Hong Kong and the rest of the world safely moving, and to protecting and enhancing the city's aviation hub status despite the challenging circumstances presented by COVID-19. We have absolute confidence in the long-term future of Hong Kong. Everything we do at Cathay Pacific is in the service of Hong Kong. Cathay Pacific has been proudly serving our home city as its de facto flag carrier through thick and thin for over 75 years.

We are excited by the possibilities provided by the launch of our new premium travel lifestyle brand and we will continue to launch new offers and enhancements that will give our customers more reasons to travel, to shop and to interact with us. Our commitments to sustainable aviation will continue as we strive to reach our net-zero target by 2050, and we will further build on our digital leadership capabilities. We continue to position ourselves to capitalise on the opportunities presented by the Greater Bay Area, and the growth potential afforded by the opening of the third runway at Hong Kong International Airport.

Though we are still facing many challenges, we have the utmost confidence in the long-term future of Cathay Pacific. We have been privileged to fly out of Hong Kong as its home airline for the past 75 years and, as those years have shown, Cathay Pacific is an enduring airline.

Finally, I would like to extend my sincere appreciation to all of our people, who have been working tirelessly to keep the airline operating under incredibly challenging conditions. In particular, I would like to thank our aircrew, who have kept Hong Kong safely connected to the world under the most difficult conditions for any airline anywhere in the world. In 2021, our crew spent more than 62,000 nights in quarantine hotels. In addition, over 1,000 of our people, many of them aircrew, but also people from our services, operations and head office teams, have spent over 11,000 nights in the Penny's Bay quarantine facility. Collectively, our crew took over 230,000 COVID-19 tests in 2021, with only 16 positive cases despite our people, who are of course all fully vaccinated, flying continuously to many of the highest-risk countries in the world. The professionalism they have shown in upholding safe operations throughout this period have been unparalleled.

Patrick Healy

Chairman

Hong Kong, 9th March 2022

Review of Operations

Capacity, Load Factor and Yield Change – Cathay Pacific

	Capacity			Load factor (%)			Yield
	ASK/AFTK (million)**			2021	2020*	Change	Change
	2021	2020*	Change	2021	2020*	Change	Change
Passenger services							
Americas	4,870	10,762	-54.7%	40.5	54.3	-13.8%pt	+104.9%
Europe	2,662	7,276	-63.4%	45.5	58.5	-13.0%pt	+61.6%
Southwest Pacific	3,183	5,341	-40.4%	9.0	60.7	-51.7%pt	+153.4%
North Asia	1,344	4,693	-71.4%	28.1	61.0	-32.9%pt	+112.2%
Southeast Asia	1,016	4,258	-76.1%	22.2	57.1	-34.9%pt	+71.0%
South Asia, Middle East and Africa	153	2,279	-93.3%	30.4	63.6	-33.2%pt	+90.9%
Overall	13,228	34,609	-61.8%	31.1	58.0	-26.9%pt	+87.4%
Cargo services	10,094	11,329	-10.9%	81.4	73.3	+8.1%pt	+33.1%

* Included Cathay Dragon

** Capacity is measured in available seat kilometres (“ASK”) for passenger services and available cargo and mail tonne kilometres (“AFTK”) for cargo services.

Passenger Services

Home market - Hong Kong and Greater Bay Area

- In February 2021, the Hong Kong SAR Government introduced new mandatory quarantine measures for Hong Kong-based crew, which had a significant impact on our ability to service our travel markets.
- In April, we launched our “Arm up, let’s fly again!” campaign to build awareness about the importance of getting vaccinated as soon as possible. The response was very positive.
- The Hong Kong SAR Government relaxed the mandatory quarantine requirement for fully vaccinated Hong Kong-based pilots and cabin crew operating passenger flights in May.
- Quarantine requirements for travellers arriving in Hong Kong from 16 overseas places were tightened in mid-August, greatly affecting inbound demand and traffic around our traditional summer peak season.
- Effective 15th November, Hong Kong International Airport’s Departures level was separated into two passenger zones – one for those travelling to the Chinese Mainland, and another for those travelling to any other destinations as well as all transit passengers. As a result, we reopened The Pier, Business lounge to cater to passengers in the departure zone for non-Chinese Mainland travel. The Wing, First lounge remained open for eligible customers travelling to the Chinese Mainland.
- In November, the Hong Kong SAR Government tightened boarding and quarantine requirements for passengers arriving from countries with reported cases of the Omicron coronavirus variant, and placed these countries in the highest-risk “Group A” category of specified places.
- In late December 2021, the Hong Kong SAR Government tightened the quarantine requirements for Hong Kong-based aircrew and subsequently announced in 2022 place-specific flight suspensions for Australia, Canada, France, India, Nepal, Pakistan, the Philippines, the United Kingdom and the United States of America that remain in place at the date of this report.

Americas

- Our US and Canada routes experienced occasional pockets of strong student travel and transit demand to and from Hong Kong and the Chinese Mainland, especially in August.
- At the end of 2021, Cathay Pacific was operating passenger flights serving the following destinations in the Americas: Chicago, Los Angeles, New York, San Francisco, Toronto and Vancouver (to and from Hong Kong); Boston (from Hong Kong only).

Europe

- The Hong Kong SAR Government's ban on flights arriving into Hong Kong from the UK that was introduced in December 2020 remained in place until May 2021. This had a considerable impact on our travel business.
- Cathay Pacific supported the operation of two special flights to bring Hong Kong residents home from the UK in April 2021. These marked our first flights operated by fully vaccinated aircrew, and our first flights from London since the ban was introduced.
- In May, Cathay Pacific resumed operating regular flights from London Heathrow following the relaxation of the ban on flights to Hong Kong from the UK.
- Our UK routes experienced occasional pockets of strong student travel demand to and from Hong Kong and the Chinese Mainland after the lifting of the ban, particularly in September.
- At the end of 2021, Cathay Pacific was operating passenger flights serving the following destinations in Europe: London, Manchester and Milan (to and from Hong Kong); Amsterdam, Frankfurt, Madrid and Paris (from Hong Kong only).

Southwest Pacific

- Due to the Australian government's restrictions on inbound traffic, all our ex-Hong Kong flights to Australia were subject to passenger quotas between 1st January and 31st October 2021.
- From 1st November, fully vaccinated Australian citizens, permanent residents and their immediate family were able to fly to Sydney and Melbourne quarantine-free, without quotas. As a result, we operated increased capacity on our flights to/from Sydney and Melbourne for eligible customers.
- At the end of 2021, Cathay Pacific was operating passenger flights serving the following destinations in the Southwest Pacific: Brisbane, Melbourne, Perth and Sydney (to and from Hong Kong); Auckland (from Hong Kong only).

North Asia

- In April, we resumed operating regular services to Chengdu and Xiamen in the Chinese Mainland, and Kaohsiung in Taiwan.
- In May, we resumed operating regular services to Fuzhou and Hangzhou in response to increased demand for travel from the Chinese Mainland under the Hong Kong SAR Government's Return2HK scheme.
- In June, we resumed passenger flights from Guangzhou to Hong Kong.
- We resumed flights to Wuhan in July and to Qingdao in August.
- Chinese Mainland sales provided good support to our network, particularly for long-haul operations serving the UK and the US.
- In August, we marked the inaugural flight of our new Airbus A321neo aircraft from Hong Kong to Shanghai (Pudong). The aircraft was also deployed on flights to Guangzhou, Hangzhou, Qingdao, Kaohsiung and Taipei.
- At the end of 2021, Cathay Pacific was operating passenger flights serving the following destinations in North Asia: Beijing, Chengdu, Kaohsiung, Seoul, Shanghai, Taipei and Tokyo (to and from Hong Kong); Fuzhou, Guangzhou, Hangzhou, Qingdao, Wuhan and Xiamen (to Hong Kong only); and Osaka (from Hong Kong only).

Southeast Asia

- Demand to and from Indonesia was strong starting in the second quarter, supported by transit passenger traffic within Asia.
- The Hong Kong SAR Government introduced a temporary ban on all flights arriving in Hong Kong from the Philippines in mid-April and from Indonesia in late-June, under its place-specific suspension mechanism in view of the COVID-19 situation in those two countries. This affected our flights from Cebu, Manila, Jakarta and Surabaya.
- The planned launch of the Hong Kong-Singapore Air Travel Bubble at the end of May was suspended.
- At the end of 2021, Cathay Pacific was operating passenger flights serving the following destinations in Southeast Asia: Cebu, Hanoi, Ho Chi Minh City, Jakarta, Kuala Lumpur, Manila, Phnom Penh, and Singapore (to and from Hong Kong); Bangkok and Phuket (from Hong Kong only).

South Asia, Middle East and Africa

- In May, we resumed operating regular services to Dubai.
- We resumed flights to Dhaka in December.
- At the end of 2021, Cathay Pacific was operating passenger flights to the following destinations in South Asia, the Middle East and Africa: Dhaka, Dubai and Tel Aviv (to and from Hong Kong).

Cathay premium travel lifestyle brand

- In July, we launched “Cathay” – a new premium travel lifestyle brand that brings all that we love about travel together with everyday lifestyle. Under “Cathay”, we rolled out a range of new offers in spending, dining, shopping and hotels, enabling us to engage with our customers not only when they fly with us, but every day.
- Cathay Pacific continues as the brand of our airline globally. Initially, the Cathay brand will only be available in Hong Kong while Cathay Pacific will continue to be our brand around the rest of the world. Over time, we will aim to expand the “Cathay” premium travel lifestyle brand to other markets.
- We launched a new range of co-branded Standard Chartered Cathay Mastercard Credit Cards with Standard Chartered Bank (Hong Kong) Limited and Mastercard. These credit cards allow customers to earn miles faster and more easily than ever, and provide an array of other exciting offers and privileges, including complimentary Cathay Pacific Business Class Lounge access, priority check-in and boarding services, or complimentary Marco Polo Club Silver or Gold membership during the promotional period.
- We introduced a new online shopping experience that provides the fastest way to earn miles from online shopping. Customers can earn miles when purchasing the carefully curated selection of products and experiences on offer, and can even pay using a mix of miles and cash with our newly launched Miles Plus Cash payment option. The new online shopping experience also provides next-day delivery in Hong Kong (subject to terms and conditions).
- Cathay partnered with dining platform OpenRice on a new dining and digital payment experience that enables customers to use the upgraded Cathay app to search for partner restaurants, make table reservations, and make payments – including with Miles Plus Cash. Members also earn miles when spending cash at partner restaurants.

Cargo Services

- In January, we launched a new scheduled freighter service between Hong Kong and Riyadh to meet the strong demand for shipments of e-commerce and other general cargo such as garments.
- The impact of crew quarantine restrictions in Hong Kong was felt most severely in April, with the number of freighter and cargo-only passenger flight operations lower than at any point since the COVID-19 pandemic began. The situation improved from May onwards.
- Cathay Pacific Cargo took the lead in its third pilot of IATA’s ONE Record initiative and established the first airline-forwarder connection in the air cargo industry via One Record API at its home hub, Hong Kong, marking a significant step in the end-to-end digitalisation of the global supply chain. IATA’s ONE Record creates a “Virtual Shipment Record” for all shipments; a single-record view of a shipment that will enable data to be shared by all stakeholders across the air cargo industry.
- Cathay Pacific Cargo became the first Asian air-cargo carrier to offer the Envirotainer Releye RLP for carriage on its aircraft fleet, adding to its extensive cool-chain options for customers with temperature-sensitive shipments. This new container provides greater load flexibility and the latest cool-chain technology.
- We launched Ultra Track, a next-generation track-and-trace system that monitors shipment information including temperature, GPS location and humidity using Bluetooth technology. The system offers greater visibility to customers who can now monitor shipments in near real time, and enables us to take proactive steps and corrective actions if and when they are necessary. Cathay Pacific Cargo has introduced Ultra Track to its network with a phased introduction at 27 ports across the globe as of the end of 2021.

- We operated six of our Boeing 777-300ER passenger aircraft that have been partially converted into “freighters” by removing some of the seats in the passenger cabins to provide additional cargo-carrying capacity.
- Demand remained strong during the Northern Hemisphere summer holiday period, typically a quieter time of the year, and our freighter schedule ramped up to peak-season levels towards the end of August.
- October saw 78 sectors operated by our converted “freighters”, while November saw us operate 1,035 pairs of cargo-only passenger flights – both record-high numbers.
- We recommenced our seasonal cargo service between Hobart and Hong Kong in November, transporting Tasmanian produce to key Asian markets.
- We launched our new digital booking platform, Click & Ship, progressively across our network, which has been well received by our customers. The platform promises booking transparency and speed, enabling customers to view prices and capacity, and book cargo with instant confirmation.
- In December, we received IATA’s CEIV Live Animal Certification, affirming our commitment to continuously improve our standards for carrying sensitive cargo.
- More stringent crew quarantine requirements in Hong Kong began to have a major impact on our long-haul capacities from the end of December.

Fleet Development

- At the end of 2021, Cathay Pacific had 193 aircraft (including 14 Cathay Dragon aircraft that are either pending to be reassigned to Cathay Pacific and HK Express, or to be lease returned or retired), HK Express had 27 aircraft and Air Hong Kong had 14 aircraft (a total of 234 aircraft).
- Given current conditions, approximately 37% of our passenger aircraft are parked in locations outside of Hong Kong in keeping with prudent operational and asset-management considerations. This is subject to change as we continue to reassess our passenger flight capacity.
- Cathay Pacific took delivery of six new aircraft in 2021. HK Express took delivery of one new aircraft in 2021. These deliveries were all firm commitments made earlier that will help to modernise our fleets and improve efficiency.
- Six of our Boeing 777-300ER passenger aircraft have been partially converted into “freighters” by removing some of the seats in the cabins to provide additional cargo-carrying capacity.

Fleet profile*

Aircraft type	Number at 31st December 2021			Total	Average age	Orders			Total	Expiry of operating leases**									
	Leased**					'22	'23	'24 and beyond		'22	'23	'24	'25	'26	'27 and beyond				
	Owned	Finance	Operating																
Cathay Pacific:																			
A320-200	5		2	7	16.6							2 ^(a)							
A321-200	2		3	5	16.7							2 ^(b)	1						
A321-200neo			5	5	0.7	7	4		11								5		
A330-300	37	10	4	51	15.2								2	2					
A350-900	19	7	2	28	4.1		2		2								2		
A350-1000	10	5		15	2.6	3			3										
747-400ERF	6			6	13.0														
747-8F	3	11		14	8.9														
777-300	17			17	20.2														
777-300ER	25	5	15	45	9.4							4 ^(c)	2	3	2	4			
777-9							21		21										
Total	124	38	31	193	10.9	10	6	21	37	8	3	3	4	6	7				
HK Express:																			
A320-200			6	6	10.8							1 ^(d)	1	4					
A320-200neo			10	10	2.8												10		
A321-200			11	11	4.2								1	2	8				
A321-200neo						1	6	9	16										
Total			27	27	5.2	1	6	9	16	1	1	4	1	2	18				
Air Hong Kong***:																			
A300-600F			9	9	17.6					5	3				1				
A330-243F			2	2	10.0										2				
A330-300P2F			3	3	14.0										3				
Total			14	14	15.8					5	3				6				
Grand total	124	38	72	234	10.5	11	12	30	53	14	7	7	5	14	25				

* The table does not reflect aircraft movements after 31st December 2021.

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

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

(a) The operating leases of two Airbus A320-200 aircraft expired in January and February 2022. The aircraft were returned to their lessors.

(b) The operating lease of one Airbus A321-200 aircraft expired in February 2022. The aircraft was returned to its lessor.

(c) The operating lease of one Boeing 777-300ER aircraft expired in January 2022. The aircraft was returned to its lessor.

(d) The operating lease of one Airbus A320-200 aircraft expired in February 2022. The aircraft was returned to its lessor.

Financial Review

Revenue

	Group			Cathay Pacific		
	2021 HK\$M	2020* HK\$M	Change	2021 HK\$M	2020* HK\$M	Change
Passenger services	4,357	11,950	-63.5%	4,346	11,313	-61.6%
Cargo services	35,814	27,890	+28.4%	32,377	24,573	+31.8%
Other services and recoveries	5,416	7,094	-23.7%	5,461	6,842	-20.2%
Total revenue	45,587	46,934	-2.9%	42,184	42,728	-1.3%

* Included Cathay Dragon

Operating expenses*

	Group			Cathay Pacific		
	2021 HK\$M	2020 HK\$M	Change	2021 HK\$M	2020 HK\$M	Change
Staff	11,298	15,786	-28.4%	9,542	13,616	-29.9%
Inflight service and passenger expenses	366	1,102	-66.8%	365	1,093	-66.6%
Landing, parking and route expenses	5,743	6,868	-16.4%	5,315	6,268	-15.2%
Fuel, including hedging gains/losses	7,031	11,379	-38.2%	6,388	10,710	-40.4%
Aircraft maintenance	5,152	5,772	-10.7%	4,261	4,745	-10.2%
Aircraft depreciation and rentals	10,444	11,879	-12.1%	9,670	11,060	-12.6%
Other depreciation, amortisation and rentals	2,381	2,720	-12.5%	1,675	1,924	-12.9%
Others	3,622	3,133	+15.6%	3,956	3,669	+7.8%
Operating expenses	46,037	58,639	-21.5%	41,172	53,085	-22.4%
Net finance charges	2,629	2,895	-9.2%	1,972	2,313	-14.7%
Total operating expenses	48,666	61,534	-20.9%	43,144	55,398	-22.1%

* Included Cathay Dragon

- The Group's and Cathay Pacific's total operating expenses decreased by 20.9% and 22.1% respectively.
- The cost per ATK (with fuel) of Cathay Pacific decreased from HK\$4.14 to HK\$3.88, a decrease of 6.3%.
- The cost per ATK (without fuel) of Cathay Pacific decreased from HK\$3.41 to HK\$3.32, a decrease of 2.6%.
- The underlying cost per ATK (without fuel), which excludes impairment and related charges and restructuring costs, increased from HK\$3.06 to HK\$3.24, an increase of 5.9%.

Operating results analysis*

	1st half 2021 HK\$M	2nd half 2021 HK\$M	Full year 2021 HK\$M	1st half 2020 HK\$M	2nd half 2020 HK\$M	Full year 2020 HK\$M
Cathay Pacific's (loss)/profit before impairment and related charges, restructuring and taxation	(4,545)	3,585	(960)	(6,943)	(5,727)	(12,670)
Impairment and related charges (note 1)	(460)	(317)	(777)	(1,281)	(1,534)	(2,815)
Restructuring costs (note 2)	(403)	18	(385)	-	(2,383)	(2,383)
Non-recurring item (note 3)	-	210	210	-	-	-
Taxation (note 4)	377	(193)	184	863	(388)	475
Cathay Pacific's (loss)/profit after taxation	(5,031)	3,303	(1,728)	(7,361)	(10,032)	(17,393)
Share of losses from subsidiaries and associates (note 5)	(2,534)	(1,265)	(3,799)	(2,504)	(1,751)	(4,255)
(Loss)/profit attributable to the shareholders of the Cathay Pacific Group	(7,565)	2,038	(5,527)	(9,865)	(11,783)	(21,648)
Adjusted (loss)/profit attributable to the shareholders of Cathay Pacific (note 6)	(6,662)	2,142	(4,520)	(7,400)	(7,809)	(15,209)

* Included Cathay Dragon

Notes:

- 1) Impairment and related charges of HK\$777 million under Cathay Pacific mainly in connection with nine aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors (2020: Impairment and related charges of HK\$2,815 million under Cathay Pacific and Cathay Dragon mainly in connection with 34 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors).
- 2) Redundancy and related costs of HK\$385 million. (2020: HK\$2,383 million in connection with the restructuring of the Group and the discontinuation of Cathay Dragon operations).
- 3) The non-recurring item in 2021 reflects a gain on deemed partial disposal of an associate.
- 4) A write off of deferred tax assets on tax losses of HK\$1,590 million for Cathay Dragon was recognised under Taxation in the second half of 2020.
- 5) Impairment and related charges of HK\$41 million under HK Express in connection with three aircraft that are unlikely to re-enter meaningful economic service again before they are returned to lessors (2020: Impairment and related charges of HK\$658 million and HK\$526 million were recognised for our laundry and catering plants respectively.).
- 6) The revised calculation of the adjusted loss attributable to the shareholders of Cathay Pacific was arrived at after excluding impairment and related charges, restructuring costs and the non-recurring gain on deemed partial disposal of an associate. The previous calculation presented in the 2020 annual report was an adjusted loss of HK\$13,855 million.

The movement in Cathay Pacific's and Cathay Dragon's loss before impairment and related charges, restructuring costs, a gain on deemed disposal of an associate and taxation can be analysed as follows:

	HK\$M	
2020 Cathay Pacific's loss before taxation*	(12,670)	
Increase/(decrease) of revenue:		
- Passenger and cargo revenue	837	- Passenger revenue decreased by 61.6% primarily due to a 79.5% decrease in passenger traffic, partially offset by a 87.4% increase in yield. - Cargo revenue increased by 31.8% due to a 33.1% increase in yield, offset partially by a 1.1% decrease in cargo traffic.
- Other services and recoveries	(1,381)	- Reduction in COVID-19 related government grants, ticket related recoveries, partly offset by an increase in Asia Miles revenues.
Decrease/(increase) of costs:		
- Staff	4,074	- Decreased due to the full year effect of restructuring and reduction of headcount.
- Inflight service and passenger expenses	728	- Lower passenger traffic.
- Landing, parking and route expenses	953	- Reduced in line with lower activity.
- Fuel, including hedging gains/losses	4,322	- Lower fuel consumption, in line with reduced aircraft flying hours. Increased fuel prices were offset by fuel hedging gains.
- Aircraft maintenance	484	- Lower due to reduced aircraft flying hours.
- Owning the assets (includes aircraft and other depreciation, rentals and net finance charges)	1,980	- Fewer leased assets, lower depreciation on owned assets and lower interest rates on borrowings
- Other items (including commissions)	(287)	- Higher due to increase in Asia Miles costs and exchange losses, partly offset by fewer airline activities.
2021 Cathay Pacific's loss before taxation	(960)	

* Included Cathay Dragon

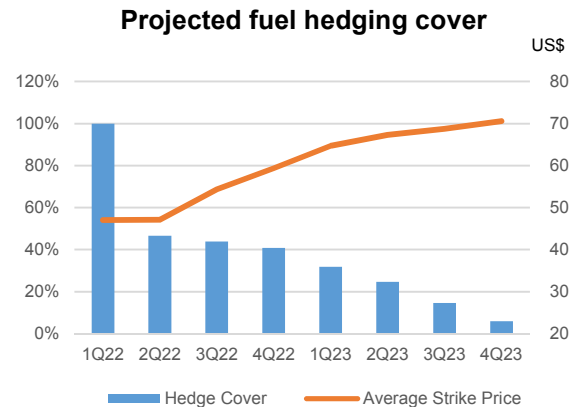
Fuel expenditure and hedging

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

	2021 HK\$M	2020* HK\$M
Gross fuel cost	9,367	8,362
Fuel hedging (gains)/losses	(2,336)	3,017
Net fuel cost	7,031	11,379

* Included Cathay Dragon

- Fuel consumption in 2021 was 15.0 million barrels (2020: 18.7 million barrels), a decrease of 19.8% compared with a decrease in capacity of 22.3%.
- The Group's fuel hedging cover at 31st December 2021 is set out in the chart opposite.
- The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. The Group uses fuel derivatives which are economically equivalent to forward contracts to achieve its desired hedging position. The chart below indicates the estimated percentage of projected consumption by year covered by hedging transactions at various Brent strike prices. The projected consumption in the first quarter of 2022 is impacted by the capacity reductions associated with COVID-19.
- The Group does not speculate on oil prices but uses hedging to manage short to medium term volatility in oil prices and therefore its fuel costs. Hedging is not risk free.



Assets

- Total assets at 31st December 2021 were HK\$196,627 million.
- During the year, additions to property, plant and equipment were HK\$5,891 million, comprising HK\$5,674 million in respect of aircraft and related equipment, HK\$141 million in respect of land and buildings and HK\$76 million in respect of other equipment.

Borrowings and capital

- Borrowings decreased by 3.5% to HK\$89,854 million. Excluding lease liabilities previously classified as operating leases, borrowings decreased by 1.0% to HK\$73,263 million, which are fully repayable by 2035, with 51% at fixed rates of interest.
- Available unrestricted liquidity at 31st December 2021 totalled HK\$30,250 million, comprising liquid funds of HK\$19,284 million and committed undrawn facilities of HK\$11,105 million, less pledged funds of HK\$139 million. To secure further liquidity, we issued HK\$6.7 billion in convertible bonds, and Medium Term Notes in USD and RMB totalling HK\$5.3 billion.
- Net borrowings (after deducting liquid funds) decreased by 4.4% to HK\$70,570 million. Disregarding the effect of adopting HKFRS 16, net borrowings decreased by 1.3% to HK\$53,979 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 1.4% to HK\$72,244 million. This was due to the Group's losses of HK\$5.5 billion, partially offset by an increase in other comprehensive income of HK\$4.0 billion and the equity component of guaranteed convertible bonds issued on February 2021 amounting to HK\$0.5 billion.
- Disregarding the effect of adopting HKFRS 16 on net borrowings, the net debt/equity ratio remained at 0.75 times (against borrowing covenants of 2.0). Taking into account the effect of adopting HKFRS 16 on net borrowings, the net debt/equity ratio was 0.98 and 1.01 times at 31st December 2021 and 31st December 2020 respectively.

Review of subsidiaries and associates

- HK Express recorded an after-tax loss of HK\$1,978 million in 2021, compared with a HK\$1,723 million loss in 2020. Capacity amounted to 71 million available seat kilometres, reflecting the airline's substantial capacity reductions in response to significantly reduced demand as well as travel restrictions and quarantine requirements in place in Hong Kong and other markets amid the ongoing global COVID-19 pandemic. The average flown load factor was 8.8%, a decrease of 62.2 percentage points versus the comparative period.
- AHK Air Hong Kong Limited recorded an increase in profit in 2021 compared with 2020. Compared with 2020, capacity (in terms of available cargo tonne kilometres) increased by 2.8% to 948 million.
- Cathay Pacific Catering Services (H.K.) Limited ("CPCS") produced 1.7 million airline meals and handled 14,053 flights in 2021 (representing a daily average of 4,701 meals and 39 flights, a decrease of 63.8% and 16.7%, respectively, from 2020). The financial results of CPCS in 2021 improved compared to 2020, mainly due to the impact of asset impairments in the prior year, partially offset by the reduction in COVID-19 financial relief measures received from the Hong Kong SAR Government and the Hong Kong Airport Authority in 2021. Excluding these one-off items, the underlying results declined due to lower business volumes. The financial results of flight kitchens outside Hong Kong in 2021 declined compared with 2020, with the exception of Canada, which reported a year-on-year improvement.
- Cathay Pacific Services Limited ("CPSL") provided cargo-handling services for the Cathay Pacific Group and 17 other airlines in 2021. It handled 1.4 million tonnes of cargo in 2021 (an increase of 4% compared with 2020), 46% of which were trans-shipments. Export and import shipments accounted for 35% and 19% respectively of the total. The financial results in 2021 improve compared with 2020.
- The financial results of Hong Kong Airport Services Limited in 2021 were adversely affected. The focus of the business was to capture new revenue streams, reduce operating costs, defer or cancel capital expenditure and to preserve cash. Various financial relief measures or assistance programmes have lessened the impact of the pandemic.
- Vogue Laundry Service Limited, a wholly owned subsidiary, provides a comprehensive range of services in laundry and dry cleaning of commercial linen, uniform and guest garments. The financial results of 2021 improved compared with those of 2020 mainly due to there being no asset impairments made in 2021, but also partly offset by the absence of financial relief measures received from the Hong Kong SAR Government in the form of Employment Subsidy Schemes, which were available in 2020.
- Air China Limited ("Air China"), in which the Cathay Pacific Group a 18.13% interest at 31st December 2021, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in the Chinese Mainland. The Group's share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently the 2021 results include Air China's results for the 12 months ended 30th September 2021, adjusted for any significant events or transactions for the period from 1st October 2021 to 31st December 2021. For the 12 months ended 30th September 2021, Air China's financial results declined compared to those for the 12 months ended 30th September 2020.
- Air China Cargo Co., Ltd. (Air China Cargo) is the leading provider of air cargo services in the Chinese Mainland. As part of a mixed ownership reform for Air China Cargo, the Cathay Pacific Group's equity and economic interest in Air China Cargo reduced from 34.78% to 24% in September 2021. Starting from the second half of 2021, with the dilution of our interest in Air China Cargo, our share of results are taken three months in arrear. The 2021 results include Air China Cargo's results for the nine months ended 30th September 2021, adjusted for any significant events or transactions in the period from 1st October 2021 to 31st December 2021.

Corporate Responsibility

- Our sustainable development report for 2021 will be published in May 2022. It will be available at https://www.cathaypacific.com/cx/en_HK/about-us/environment/overview/introduction.html
- In 2021, Cathay Pacific reaffirmed its commitment to achieving net-zero carbon emissions by 2050 by setting a mid-term target to use 10% Sustainable Aviation Fuel (SAF) for the jet fuel consumption of all Cathay Pacific operating flights by 2030. All member airlines of the **oneworld** alliance, for which Cathay Pacific is a founding member, have also made the same commitment.
- In 2021, Cathay Pacific announced its involvement as a founding member in the Aviation Climate Taskforce (ACT), a new non-profit organisation founded together with Boston Consulting Group (BCG) and other airline leaders to tackle the challenge of eliminating carbon emissions in aviation through innovation and collaboration.
- The Cathay Pacific Group also supported Hong Kong International Airport's (HKIA) long-term carbon pledge to achieve Net Zero Carbon by 2050, with a midpoint target of 55% reduction of absolute ground emissions by 2035 from the 2018 baseline. This pledge would cover the Group's carbon emissions from its ground operations at its home base.
- Cathay Pacific continues to take part in various industry groups who share our view in support of the development of a science-based climate change target and corresponding sustainable decarbonisation actions for the aviation industry. This includes the IATA Sustainability and Environment Advisory Committee, the Clean Skies for Tomorrow Coalition, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials, and the Environmental Working Group of the Association of Asia Pacific Airlines.
- We have completed all the applicable requirements, including submission and verification of our emissions data, in accordance with the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), the European Union's Emissions Trading Scheme (EU ETS), and also the United Kingdom Emissions Trading Scheme (UK ETS).
- Cathay Pacific is proud to have flown the first shipment of COVID-19 vaccines to Hong Kong from Beijing as the airline continues to support the Hong Kong SAR Government's vaccination programme. Since the start of COVID-19, our airlines have transported over 190 million doses of COVID-19 vaccines around the world.
- In February, Cathay Pacific took part in UNICEF's Humanitarian Airfreight Initiative to support the delivery of COVID-19 vaccines, essential medicines, medical devices and other critical supplies to support developing countries in responding to the pandemic. In total, we have helped transport over 40 million doses of COVID-19 vaccines under this initiative.
- At 31st December 2021, the Cathay Pacific Group employed more than 21,600 people worldwide. Around 17,700 of these people are based in Hong Kong. Cathay Pacific employed more than 16,700 permanent employees worldwide. Around 76% of these people are based in Hong Kong.
- 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.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31st December 2021

	Note	2021 HK\$M	2020 HK\$M
Revenue			
Passenger services		4,357	11,950
Cargo services		35,814	27,890
Other services and recoveries		5,416	7,094
Total revenue		45,587	46,934
Expenses			
Staff		(11,298)	(15,786)
Inflight service and passenger expenses		(366)	(1,102)
Landing, parking and route expenses		(5,743)	(6,868)
Fuel, including hedging gains/losses		(7,031)	(11,379)
Aircraft maintenance		(5,152)	(5,772)
Aircraft depreciation and rentals		(10,444)	(11,879)
Other depreciation, amortisation and rentals		(2,381)	(2,720)
Others		(3,622)	(3,133)
Operating expenses		(46,037)	(58,639)
Operating loss before non-recurring items		(450)	(11,705)
Restructuring costs	18	(385)	(2,383)
Impairment and related charges	18	(818)	(4,056)
Gain on deemed partial disposal of an associate	4	210	-
Operating loss	5	(1,443)	(18,144)
Finance charges		(2,704)	(3,044)
Finance income		75	149
Net finance charges	6	(2,629)	(2,895)
Share of losses of associates		(1,985)	(1,282)
Loss before taxation		(6,057)	(22,321)
Taxation	7	531	674
Loss for the year		(5,526)	(21,647)
Attributable to			
Ordinary shareholders of Cathay Pacific		(6,123)	(21,876)
Preference shareholder of Cathay Pacific	17	596	228
Non-controlling interests		1	1
Loss for the year		(5,526)	(21,647)
Loss per ordinary share			
Basic and diluted	8	(95.1)¢	(424.3)¢
Loss for the year		(5,526)	(21,647)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		2,581	(1,041)
Share of other comprehensive income of associates		211	(203)
Exchange differences on translation of foreign operations		691	1,638
Items that may not be reclassified subsequently to profit or loss:			
Defined benefit plans		510	599
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		(5)	-
Other comprehensive income for the year, net of taxation	9	3,988	993
Total comprehensive income for the year		(1,538)	(20,654)
Total comprehensive income attributable to			
Ordinary shareholders of Cathay Pacific		(2,135)	(20,883)
Preference shareholder of Cathay Pacific	17	596	228
Non-controlling interests		1	1
		(1,538)	(20,654)

Consolidated Statement of Financial Position
at 31st December 2021

	<i>Note</i>	2021 HK\$M	2020 HK\$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Property, plant and equipment	10	123,990	131,925
Intangible assets	11	15,035	15,061
Investments in associates		24,532	26,489
Other long-term receivables and investments		3,327	2,905
Deferred tax assets		846	627
		167,730	177,007
Interest-bearing liabilities	12	(67,504)	(68,880)
Other long-term payables		(3,441)	(4,210)
Other long-term contract liabilities		(478)	-
Deferred tax liabilities		(9,820)	(11,499)
		(81,243)	(84,589)
Net non-current assets		86,487	92,418
Current assets and liabilities			
Stock		1,269	1,719
Trade and other receivables	13	8,296	6,469
Assets held for sale		48	38
Liquid funds	14	19,284	19,341
		28,897	27,567
Interest-bearing liabilities	12	(22,350)	(24,249)
Trade and other payables	15	(10,095)	(12,376)
Contract liabilities		(7,925)	(8,122)
Taxation		(2,765)	(1,977)
		(43,135)	(46,724)
Net current liabilities		(14,238)	(19,157)
Total assets less current liabilities		153,492	157,850
Net assets		72,249	73,261
CAPITAL AND RESERVES			
Share capital	16	48,322	48,322
Reserves		23,922	24,935
Funds attributable to the shareholders of Cathay Pacific		72,244	73,257
Non-controlling interests		5	4
Total equity		72,249	73,261

Consolidated Statement of Cash Flows
for the year ended 31st December 2021

	2021 HK\$M	2020 HK\$M
Operating activities		
Cash generated from/(used in) operations	11,705	(11,237)
Interest received	67	92
Interest paid	(1,946)	(2,223)
Tax paid	(991)	(923)
Net cash inflow/(outflow) from operating activities	8,835	(14,291)
Investing activities		
Net decrease/(increase) in liquid funds other than cash and cash equivalents	2,464	(7,150)
Proceeds from sales of property, plant and equipment	112	153
Net increase in other long-term receivables and investments	(17)	(2)
Payments for property, plant and equipment and intangible assets	(2,276)	(5,418)
Dividends received from associates	-	675
Repayments from/(loan to) an associate	210	(16)
Net cash inflow/(outflow) from investing activities	493	(11,758)
Financing activities		
New financing	13,906	22,304
Loan and lease repayments	(20,838)	(30,134)
Proceeds from issue of rights shares	-	11,716
Proceeds from issue of preference shares	-	19,500
Payments of transaction costs on issue of rights shares and preference shares	-	(77)
Net cash (outflow)/inflow from financing activities	(6,932)	23,309
Net increase/(decrease) in cash and cash equivalents	2,396	(2,740)
Cash and cash equivalents at 1st January	6,166	8,881
Effect of exchange differences	11	25
Cash and cash equivalents at 31st December	8,573	6,166

Notes:

1. Basis of accounting

The annual results set out in this announcement are extracted from the Group's statutory financial statements for the year ended 31st December 2021.

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

The financial information relating to the years ended 31st December 2020 and 2021 that is included in this document does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2020 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. The specified financial statements for the year ended 31st December 2021 have not been but will be delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. Auditor's reports have been prepared on the specified financial statements for the years ended 31st December 2020 and 2021. Those reports were not qualified or otherwise modified, did not refer to any matters to which the auditor drew attention by way of emphasis without qualifying the reports and did not contain statements under section 406(2) or 407(2) or (3) of the Ordinance.

Accounting policies adopted for convertible bonds are as follows:

Convertible bonds that can be converted into ordinary shares at the option of the holder, where a fixed number of shares are issued for a fixed amount of financial assets, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured at the fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible bonds as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is not remeasured and is recognised in the convertible bond reserve until the bonds are converted.

2. Changes in accounting policies

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

- Amendment to HKFRS 16 “COVID-19-related rent concessions beyond 30th June 2021”
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2”

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

Amendment to HKFRS 16 “COVID-19-Related Rent Concessions beyond 30th June 2021”

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires that the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30th June 2021 to 30th June 2022.

The eligible rent concessions are accounted for as negative variable lease payments, and are recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

There is no impact on the opening balance of equity at 1st January 2021.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2”

The amendments provide targeted reliefs from accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“IBOR reform”). The amendments do not have an impact on these financial statements as the Group has not moved any existing contracts to alternative benchmark rates.

3. Segment information

(a) Segment results

	2021					
	Cathay Pacific HK\$M	HK Express HK\$M	Air Hong Kong HK\$M	Airline services HK\$M	Associates HK\$M	Total HK\$M
Profit or loss						
Sales to external customers	41,829	20	3,106	632		45,587
Inter-segment sales	355	-	57	1,718		2,130
Segment revenue	42,184	20	3,163	2,350		47,717
Segment profit/(loss), before restructuring costs, impairment and related charges	1,222	(1,806)	898	(554)	-	(240)
Restructuring costs	(385)	-	-	-	-	(385)
Impairment and related charges	(777)	(41)	-	-	-	(818)
Segment profit/(loss)	60	(1,847)	898	(554)	-	(1,443)
Net finance charges	(1,972)	(328)	(1)	(328)	-	(2,629)
	(1,912)	(2,175)	897	(882)	-	(4,072)
Share of losses of associates	-	-	-	-	(1,985)	(1,985)
(Loss)/profit before taxation	(1,912)	(2,175)	897	(882)	(1,985)	(6,057)
Taxation	184	197	(149)	24	275	531
(Loss)/profit for the year	(1,728)	(1,978)	748	(858)	(1,710)	(5,526)
Non-controlling interests	-	-	-	(1)	-	(1)
(Loss)/profit attributable to the shareholders of Cathay Pacific	(1,728)	(1,978)	748	(859)	(1,710)	(5,527)
Other segment information						
Depreciation and amortisation	11,219	869	5	693		12,786
Purchase of property, plant and equipment and intangible assets	2,162	56	-	58		2,276
	2020					
	Cathay Pacific* HK\$M	HK Express HK\$M	Air Hong Kong HK\$M	Airline services HK\$M	Associates HK\$M	Total HK\$M
Profit or loss						
Sales to external customers	42,432	861	2,866	775		46,934
Inter-segment sales	296	-	90	1,877		2,263
Segment revenue	42,728	861	2,956	2,652		49,197
Segment (loss)/profit, before restructuring costs, impairment and related charges	(10,357)	(1,661)	852	(539)	-	(11,705)
Restructuring costs	(2,383)	-	-	-	-	(2,383)
Impairment and related charges	(2,815)	(1)	-	(1,184)	(56)	(4,056)
Segment (loss)/profit	(15,555)	(1,662)	852	(1,723)	(56)	(18,144)
Net finance charges	(2,313)	(274)	-	(308)	-	(2,895)
	(17,868)	(1,936)	852	(2,031)	(56)	(21,039)
Share of losses of associates	-	-	-	-	(1,282)	(1,282)
(Loss)/profit before taxation	(17,868)	(1,936)	852	(2,031)	(1,338)	(22,321)
Taxation	475	213	(137)	(3)	126	674
(Loss)/profit for the year	(17,393)	(1,723)	715	(2,034)	(1,212)	(21,647)
Non-controlling interests	-	-	-	(1)	-	(1)
(Loss)/profit attributable to the shareholders of Cathay Pacific	(17,393)	(1,723)	715	(2,035)	(1,212)	(21,648)
Other segment information						
Depreciation and amortisation	12,756	901	6	758		14,421
Purchase of property, plant and equipment and intangible assets	5,004	329	1	84		5,418

* Included Cathay Dragon

3. Segment information (continued)

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

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

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

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

(b) Geographical information

	2021 HK\$M	2020 HK\$M
Revenue by origin of sale:		
North Asia		
- Hong Kong and the Chinese Mainland	30,721	29,567
- Japan, Korea and Taiwan	3,508	3,168
Americas	3,171	3,944
Europe	1,405	2,649
Southeast Asia	4,478	3,686
Southwest Pacific	812	1,531
South Asia, Middle East and Africa	1,492	2,389
	45,587	46,934

Geographical segment results and segment net assets are not disclosed for the reasons set out in the 2021 Annual Report.

4. Gain on deemed partial disposal of an associate

In September 2021, the Cathay Pacific Group's equity and economic interest in Air China Cargo of 34.78% was reduced to 24.00%. A gain of HK\$210 million was recorded during the year ended 31st December 2021 on this deemed partial disposal.

5. Operating loss

	2021 HK\$M	2020 HK\$M
Operating loss has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
- right-of-use assets	5,284	6,069
- owned	6,941	7,779
Amortisation of intangible assets	561	573
Impairment		
- property, plant and equipment	1,010	3,973
- intangible assets	-	39
- investment in an associate	-	56
- stock	110	-
Expenses relating to short-term leases and leases of low-value assets	27	25
COVID-19-related rent concessions recognised	(301)	(316)
Gain on disposal of property, plant and equipment, net	(51)	(34)
Loss on disposal of intangible assets	5	-
Cost of stock expensed	711	845
Exchange differences, net	69	(295)
Auditors' remuneration	15	16
Dividend income from unlisted equity investments	(29)	(49)

6. Net finance charges

	2021 HK\$M	2020 HK\$M
Net interest charges comprise:		
- lease liabilities stated at amortised cost	905	1,058
- bank loans and overdrafts		
- wholly repayable within five years	411	718
- not wholly repayable within five years	283	543
- other borrowings		
- wholly repayable within five years	546	125
- not wholly repayable within five years	341	255
	2,486	2,699
Income from liquid funds:		
- funds with investment managers and other liquid investments at fair value through profit or loss	(9)	(63)
- bank deposits and others	(66)	(86)
	(75)	(149)
Fair value change:		
- gain on financial liabilities designated at fair value through profit or loss	-	(73)
- loss on financial derivatives	218	418
	218	345
	2,629	2,895

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 gain from derivatives that are classified as fair value through profit or loss of HK\$25 million (2020: net loss of HK\$210 million).

7. Taxation

	2021 HK\$M	2020 HK\$M
Current tax expenses		
- Hong Kong profits tax	141	137
- overseas tax	142	124
- under provisions for prior years	17	42
Deferred tax		
- origination and reversal of temporary differences	(831)	(977)
	(531)	(674)

Hong Kong profits tax is calculated at 16.5% (2020: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 28(c) to the financial statements in the 2021 Annual Report).

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

	2021 HK\$M	2020 HK\$M
Loss before taxation	(6,057)	(22,321)
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2020: 16.5%)	999	3,683
Expenses not deductible for tax purposes	(247)	(435)
Income not subject to tax	197	136
Effect of changes in effective tax rate and jurisdictional differences	(148)	(445)
Tax under provisions arising from prior years	(17)	(42)
Tax losses not recognised	(253)	(1,286)
Reversal of tax losses recognised in prior years	-	(937)
Tax credit	531	674

Upon restructuring of the Group, deferred tax assets on tax losses of HK\$1,590 million for Cathay Dragon were written off during the year ended 31st December 2020, of which HK\$878 million was recognised in prior years.

Further information on deferred taxation is shown in note 15 to the financial statements in the 2021 Annual Report.

8. Loss per ordinary share

	2021			2020		
	Loss (a) HK\$M	Weighted average number of ordinary shares	Per share amount HK cents	Loss (a) HK\$M	Weighted average number of ordinary shares	Per share amount HK cents
Basic and diluted loss per ordinary share	(6,123)	6,437,200,203	(95.1)	(21,876)	5,156,000,217	(424.3)

(a) The amounts represent the loss attributable to the ordinary shareholders of Cathay Pacific, which is the loss for the period after non-controlling interests and dividends attributable to the holder of the cumulative preference shares classified as equity.

8. Loss per ordinary share (continued)

- (b) On 10th August 2020, the Company issued 2,503,355,631 new ordinary shares at HK\$4.68 each by way of rights issue to qualifying ordinary shareholders. As required by HKAS 33 “Earnings per Share”, an adjustment of 391,107,005 shares representing the bonus element in the rights issue was applied to the calculation of the weighted average number of ordinary shares for the year ended 31st December 2020.
- (c) On 12th August 2020, the Company issued warrants which entitle the holder to subscribe for up to 416,666,666 ordinary shares. On 5th February 2021, the Company issued convertible bonds which entitle the holder to convert up to 786,464,410 ordinary shares. The Company’s warrants and convertible bonds as at 31st December 2021 have an anti-dilutive effect to the loss per ordinary share and there are no other dilutive potential ordinary shares in existence during the years ended 31st December 2021 and 2020, and hence diluted loss per ordinary share is the same as the basic loss per ordinary share.

9. Other comprehensive income

	2021 HK\$M	2020 HK\$M
Cash flow hedges		
- gain/(loss) recognised during the year	4,684	(4,261)
- (gain)/loss transferred to profit or loss	(1,836)	3,105
- deferred taxation	(267)	115
Share of other comprehensive income of associates		
- recognised during the year	211	(203)
Exchange differences on translation of foreign operations		
- gain recognised during the year	724	1,638
- reclassified to profit or loss upon deemed partial disposal	(33)	-
Defined benefit plans		
- remeasurement gain recognised during the year	561	653
- deferred taxation	(51)	(54)
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		
- loss recognised during the year	(5)	-
Other comprehensive income for the year	3,988	993

10. Property, plant and equipment

The carrying amounts of certain property, plant and equipment were written down by HK\$1,010 million (2020: HK\$3,973 million) to their recoverable amounts as follows (the recoverable amounts were estimated using the higher of fair value less costs of disposal and value in use):

- (a) As a result of reduced flying associated with the impacts of the pandemic, management has assessed as part of its base case for Cathay Pacific and HK Express (see note 11 below) that there are 12 (2020: 34) owned and leased aircraft, that are unlikely to re-enter meaningful economic service again before their retirement or return to lessors by the end of the year. Consequently an impairment charge of HK\$865 million (2020: HK\$2,764 million) was recognised during the year to write off these aircraft assets in full.
- (b) An impairment charge of HK\$145 million (2020: HK\$1,209 million), which comprises HK\$96 million (2020: nil) of aircraft related equipment and HK\$49 million (2020: HK\$896 million) of land and building was recognised to reduce the carrying values to their recoverable amounts. No impairment charge (2020: HK\$313 million) was recognised to reduce the carrying values of other equipment.

Further details surrounding the impact of COVID-19 on the Group are disclosed in note 18 below.

11. Intangible assets

Goodwill is allocated to the Group's Cash Generating Units (CGUs) as follows:

	2021 HK\$M	2020 HK\$M
Cathay Pacific	7,884	7,884
HK Express	3,616	3,616
Others	115	115
	11,615	11,615

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

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

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

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

For the Cathay Pacific CGU the base case assumes that, due to adverse impact brought by COVID-19 and the resulted measures of the Government of the Hong Kong Special Administrative Region, passenger traffic will not return to pre-crisis levels until 2025. Revenue efficiency during the recovery period is assumed to remain weaker than historical levels as demand is stimulated. A ten-year forecast is considered appropriate for the airline operations to take into account this recovery period and thereafter a phased opening of slot availability associated with the new Three Runway System at Hong Kong International Airport. Consequently during the period 2025-2031 it is assumed that growth will be slightly elevated with revenue efficiency marginally weaker than historical averages. The downside scenario reflects a slower recovery until mid-2025 with lower demand across the network and thus capacity is reduced to preserve revenue efficiency. Cash flows beyond the ten-year period are extrapolated with an estimated general annual growth rate of 2.25% (2020: 2.25%) which does not exceed the long-term average growth rate for the industry (IATA's most recent 20 year global forecast is 3.3%). Cash outflows include capital and maintenance expenditure including the purchase of aircraft and other property, plant and equipment. The discount rate used of 7.3% (2020: 7.4%) is pre-tax and reflects the specific risks related to the relevant segment. Both the base case and downside case result in headroom over the carrying values of the CGU as at 31st December 2021 and consequently no impairment has been made.

11. Intangible assets (continued)

For the HK Express CGU, the base case scenario reflects a faster recovery than Cathay Pacific due to an expected earlier resumption in demand for short haul and regional leisure travel, together with steady growth in the low cost carrier demand model, particularly with the opening of the Three Runway System. Due to the pursuit of growth, the downside scenario reflects a drop in revenue efficiency, rather than capacity. Like Cathay Pacific, a ten-year forecast is considered appropriate. Similarly cash flows beyond the ten-year period are extrapolated with an estimated general annual growth rate of 2.25% (2020: 2.25%). The discount rate used of 11.0% (2020: 11.1%) is pre-tax and reflects the specific risks related to the HK Express segment. Both the base case and downside case result in headroom over the carrying values of the CGU as at 31st December 2021 and consequently no impairment has been made.

For both Cathay Pacific and HK Express CGUs the terminal year in the impairment test has the most material impact on the determination of the recoverable amount and thus the surplus over carrying value. As such the pandemic recovery period, while impacting the measurement, does not materially impact the surplus over carrying value identified. DCF modelling for 2021 sits within the range of IATA's latest pessimistic to optimistic 2021 traffic estimates.

Impairment testing of our Airline service CGUs adopts, to the extent relevant, consistent recovery assumptions as the Cathay Pacific CGU. Both the base case and downside case result in headroom over the carrying values of the CGU as at 31st December 2021 and consequently no impairment has been made.

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

12. Interest-bearing liabilities

	2021		2020	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Loans and other borrowings	16,061	39,061	17,513	37,982
Lease liabilities	6,289	28,443	6,736	30,898
	22,350	67,504	24,249	68,880

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

	2021 HK\$M	2020 HK\$M
Non-current liabilities:		
Loans and other borrowings	39,061	37,982
Lease liabilities	28,443	30,898
	67,504	68,880
Current liabilities:		
Loans and other borrowings	16,061	17,513
Lease liabilities	6,289	6,736
	22,350	24,249
Total borrowings	89,854	93,129
Liquid funds	(19,284)	(19,341)
Net borrowings	70,570	73,788
Funds attributable to the shareholders of Cathay Pacific	72,244	73,257
Net debt/equity ratio	0.98	1.01

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

	2021 HK\$M	2020 HK\$M
Net borrowings	70,570	73,788
Less: lease liabilities without asset transfer components	(16,591)	(19,090)
Adjusted net borrowings, excluding leases without asset transfer components	53,979	54,698
Adjusted net debt/equity ratio, excluding leases without asset transfer components	0.75	0.75

13. Trade and other receivables

	2021 HK\$M	2020 HK\$M
Trade debtors, net of loss allowances	3,919	3,381
Derivative financial assets - current portion	1,759	90
Other receivables and prepayments	2,615	2,994
Due from associates and other related companies	3	4
	8,296	6,469

At 31st December 2021, derivative financial assets – current portion which did not qualify for hedge accounting amounted to HK\$290 million (2020: insignificant).

	2021 HK\$M	2020 HK\$M
Analysis of trade debtors (net of loss allowances) by invoice date:		
Within one month	3,441	2,608
One to three months	420	505
More than three months	58	268
	3,919	3,381

	2021 HK\$M	2020 HK\$M
Analysis of trade debtors (net of loss allowances) by age:		
Current	3,754	2,916
Within three months overdue	135	221
More than three months overdue	30	244
	3,919	3,381

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

	2021 HK\$M	2020 HK\$M
At 1st January	78	81
Expected credit loss recognised	22	
Amounts written off	-	(3)
At 31st December	100	78

14. Liquid funds

Liquidity risk

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

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

At the end of the reporting period, the Group held liquid funds (note 17 to the financial statements in the 2021 Annual Report) of HK\$19,284 million (2020: HK\$19,341 million) that is available for managing liquidity risk.

14. Liquid funds (continued)

(a) Financial arrangements

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

	2021 HK\$M	2020 HK\$M
Liquid funds	19,284	19,341
Less: amounts pledged as part of long-term financing		
- debt securities listed outside Hong Kong	(5)	(6)
- bank deposits	(134)	(138)
Committed undrawn facilities	11,105	9,396
Available unrestricted liquidity to the Group	30,250	28,593
	2021 HK\$M	2020 HK\$M
Uncommitted bank overdraft facilities	461	343
Other uncommitted bank facilities	-	775
	461	1,118

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

(b) Payment profile of financial liabilities

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

	2021				Total HK\$M
	Within one year HK\$M	After one year but within two years HK\$M	After two years but within five years HK\$M	After five years HK\$M	
Group					
Loans and other borrowings	(17,206)	(8,098)	(27,522)	(8,314)	(61,140)
Lease liabilities	(7,038)	(6,635)	(11,717)	(12,766)	(38,156)
Other long-term payables	-	(1,142)	(1,536)	(579)	(3,257)
Trade and other payables	(9,909)	-	-	-	(9,909)
Derivative financial liabilities, net	(205)	(152)	(137)	(5)	(499)
Total	(34,358)	(16,027)	(40,912)	(21,664)	(112,961)
	2020				Total HK\$M
	Within one year HK\$M	After one year but within two years HK\$M	After two years but within five years HK\$M	After five years HK\$M	
Group					
Loans and other borrowings	(18,527)	(11,808)	(17,132)	(12,891)	(60,358)
Lease liabilities	(7,519)	(6,942)	(14,445)	(12,307)	(41,213)
Other long-term payables	-	(1,072)	(1,804)	(835)	(3,711)
Trade and other payables	(11,065)	-	-	-	(11,065)
Derivative financial liabilities, net	(1,283)	(227)	(281)	(35)	(1,826)
Total	(38,394)	(20,049)	(33,662)	(26,068)	(118,173)

15. Trade and other payables

	2021 HK\$M	2020 HK\$M
Trade creditors	4,327	3,284
Derivative financial liabilities - current portion	186	1,311
Other payables	5,311	7,278
Due to associates	55	218
Due to other related companies	216	285
	10,095	12,376

	2021 HK\$M	2020 HK\$M
Analysis of trade creditors by invoice date:		
Within one month	3,706	2,570
One to three months	328	262
More than three months	293	452
	4,327	3,284

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\$702 million (2020: HK\$1,056 million) for possible or actual taxation (other than income tax), litigation and claims. The movements during the year are as follows:

	2021 HK\$M	2020 HK\$M
At 1st January	1,056	794
Additional provision made, net	83	284
Provision utilised	(437)	(22)
At 31st December	702	1,056

16. Share capital

	2021		2020	
	Number of shares	HK\$M	Number of shares	HK\$M
Issued and fully paid				
Ordinary shares				
At 1st January	6,437,200,203	28,822	3,933,844,572	17,106
Shares issued on 10th August 2020 pursuant to rights issue	-	-	2,503,355,631	11,716
At 31st December	6,437,200,203	28,822	6,437,200,203	28,822
Preference shares				
At 1st January	195,000,000	19,500	-	-
Shares issued on 12th August 2020	-	-	195,000,000	19,500
At 31st December	195,000,000	19,500	195,000,000	19,500
		48,322		48,322

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares and no exercise of warrants during the year ended 2021 and 2020. At 31st December 2021, 6,437,200,203 ordinary shares and 195,000,000 preference shares were in issue (31st December 2020: 6,437,200,203 ordinary shares and 195,000,000 preference shares).

16. Share capital (continued)

During the year ended 31st December 2020, the Company announced a recapitalisation proposal which involved, among other things:

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

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

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

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

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

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

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

17. Dividends

- (a) Dividends on cumulative preference shares issued by the Company

The preference shares will accrue dividends at the rate of:

- (i) 3% per annum from and including the Issue Date (12th August 2020) to but excluding the date falling three years from the Issue Date (the "First Step-up Date");
- (ii) 5% per annum from and including the First Step-up Date to but excluding the date falling four years from the Issue Date (the "Second Step-up Date");
- (iii) 7% per annum from and including the Second Step-up Date to but excluding the date falling five years from the Issue Date (the "Third Step-up Date"); and
- (iv) 9% per annum from and including the Third Step-up Date

17. Dividends (continued)

Dividends on cumulative preference shares are paid semi-annually in arrears at the current rate of 3% per annum, compounding, and can be deferred in whole or in part at the Company's discretion.

The dividend attributable to the preference shareholder for the period ended 31st December 2021 was HK\$596 million (31st December 2020: HK\$228 million).

Any deferred or unpaid dividends on cumulative preference shares shall accumulate and constitute "Arrears of Dividend". The accumulated Arrears of Dividend at 31st December 2021 was HK\$824 million (31st December 2020: HK\$228 million).

The dividends payable on 14th February 2022 have been deferred. The cumulative amount deferred of HK\$897 million was in respect of dividends for the 18-month period from the Issue Date 12th August 2020 and the compounding effect of unpaid dividends.

(b) Dividends payable to ordinary shareholders

The Articles of Association of the Company require that any deferred or unpaid dividends on cumulative preference shares shall accumulate and constitute "Arrears of Dividend" and that the Company shall not make any discretionary distribution or dividend in cash or otherwise on any ordinary shares until all outstanding Arrears of Dividend have been paid in full.

There remain Arrears of Dividend as at 31st December 2021 and 2020 and accordingly no dividends to ordinary equity shareholders were proposed.

No dividends to ordinary equity shareholders attributable to the year and previous financial year were declared, approved nor paid during 2021 and 2020.

Note 17(a) details the cumulative Arrears of Dividend as at 31st December 2021.

The Directors decided not to declare an interim dividend for the year ended 31st December 2021.

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.

To facilitate the processing of proxy voting for the annual general meeting to be held on 11th May 2022, the register of members will be closed from 5th May 2022 to 11th May 2022, 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 Wednesday, 4th May 2022.

18. Impacts of COVID-19

The outbreak of COVID-19 in 2020 has continued to pose significant challenges for the Group and has impacted the Group's operations and financial position in 2021.

(a) Liquidity and going concern

The Group's cost base and cash outflows were reduced through several measures. Capacity was cut in response to COVID-19. Executive pay was cut for 2021 and a third unpaid leave scheme was introduced in the first half of 2021 with an 80% voluntary uptake. A range of employee furlough, leave without pay, voluntary separation and early retirement schemes were implemented globally for a broad range of employee groups. Redundancy initiatives were implemented in several regions. One off redundancy costs amounted to HK\$385 million during 2021 (2020: HK\$2,383 million).

Cost containment measures, along with strong cargo performance during the year resulted in net cash inflows from operating activities of HK\$8.8 billion (2020: outflows of HK\$14.3 billion).

The Group raised new financing in excess of HK\$13 billion during the year. Available unrestricted liquidity for the Group was HK\$30,250 million (2020: HK\$28,593 million).

Management have assessed cash flow forecasts under various scenarios, including downside assumptions of route restrictions, tight aircrew quarantine requirements and heavily subdued passenger demand across the Group's network through the forecast period. The Group will continue to benefit from costs savings resulting from restructuring and remains focused on maintaining our passenger and cargo networks as far as possible and will try to increase our cargo capacity as much as practical. Management are of the opinion that the Group has sufficient unrestricted liquidity for at least the next 12 months from the date of approval of the consolidated financial statements. Accordingly management concludes that it is appropriate to prepare the financial statements on a going concern basis.

(b) Asset carrying values

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

Impairment and related charges of HK\$818 million (2020: HK\$4,056 million) was recognised for the reduction in asset values (HK\$865 million, note 10 above) mainly on a further 12 aircraft that are unlikely to re-enter meaningful economic service again before their retirement or return to lessors, an offsetting adjustment to the provision for fulfilling lease return conditions of leased aircraft included therein (HK\$302 million net credit). In addition, impairments on certain aircraft related equipment of HK\$96 million, engineering and inflight services stock of HK\$110 million and HK\$49 million on building related assets arose resulting from COVID-19 conditions.

No other impairment was identified for the Group's cash generating units, non-financial assets and investments.

(c) Over-hedging

With reduced actual and forecast flying activity, the Group's fuel hedging contract volumes exceeded probable fuel consumption forecasts. A HK\$537 million gain was released from the cash flow hedge reserve to the profit and loss in respect of fuel over-hedging (2020: HK\$315 million loss).

Similarly, with the reduction in expected revenues, a HK\$115 million gain (2020: insignificant) on over-hedged foreign currency revenues, mostly in relation to foreign currency borrowings designated as hedging instruments, was released from the cash flow hedge reserve to the profit and loss.

18. Impacts of COVID-19 (continued)

(d) Government grants and other assistance

The Group recognised HK\$1,460 million (2020: HK\$2,689 million) of government grants globally, mostly as a result of COVID-19.

HK\$241 million (2020: HK\$1,503 million) in respect of income grants, net of penalties paid, are presented as revenue from other services and recoveries. HK\$1,219 million (2020: HK\$1,186 million) in relation to cost reductions and waivers are presented net of the respective cost categories. Key sources of both income grants and cost reductions and waivers are presented below. There were no unfulfilled conditions or contingencies attached to the grants at the year end.

(i) Hong Kong

Cost reductions were predominantly from the Hong Kong Airport Authority, representing HK\$1,109 million (2020: HK\$1,080 million) discounts and waivers on airport facility costs.

(ii) Outport

A total of HK\$248 million (2020: HK\$368 million) was recognised from outport governments, the majority of which relates to employment support schemes and is presented as revenue from other services and recoveries.

(e) COVID-19 related rent concessions

In 2021, the Group received rent concessions in the form of a discount on fixed payments as a direct consequence of the COVID-19 pandemic.

Rent concessions of HK\$301 million (2020: HK\$316 million) received have been accounted for as negative variable lease payments recognised in profit or loss. This is allowable under the Amendment to HKFRS 16, applying the practical expedient under COVID-19-Related Rent Concessions which has been extended to concessions up to 30th June 2022. This amount includes concessions of HK\$261 million (2020: HK\$266 million) received from government vendors during the year and included as government grants and other assistance as disclosed in Note 18(d) above.

19. Corporate governance

The Company is committed to maintaining a high standard of corporate governance. The Company complied with all the code provisions set out in the Corporate Governance Code (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 believed does not benefit its 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 considered the merits of establishing a nomination committee but concluded that it was 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 allowed a more informed and balanced decision to be made by the Board as to suitability for the role.

During 2021, The Stock Exchange of Hong Kong Limited consulted on changes to the CG Code and related Listing Rules. One of the outcomes of the consultation is that nomination committees have become mandatory. The Board has resolved to form a nomination committee with effect from 9th March 2022.

The Company has adopted a code of conduct (the “Securities Code”) regarding securities transactions by Directors 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.

19. Corporate governance (continued)

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

Details of the Company's corporate governance principles and processes will be available in the 2021 Annual Report.

The annual results have been reviewed by the Audit Committee of the Company.

20. Annual report

The 2021 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 on 4th April 2022, and copies will be dispatched to shareholders on 6th April 2022.

As at the date of this announcement, the Directors of Cathay Pacific are:

Executive Directors: Patrick Healy (Chairman), Gregory Hughes, Ronald Lam, Rebecca Sharpe, Augustus Tang;

Non-Executive Directors: Guy Bradley, Ma Chongxian, Song Zhiyong, Merlin Swire, Samuel Swire, Xiao Feng, Zhang Zhuo Ping, Zhao Xiaohang;

Independent Non-Executive Directors: Bernard Chan, John Harrison, Robert Milton and Andrew Tung.

By Order of the Board

Cathay Pacific Airways Limited

Patrick Healy

Chairman

Hong Kong, 9th March 2022

Website: www.cathaypacific.com

Disclaimer

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

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