

Cathay Pacific Airways Limited – Abridged Financial Statements

To provide shareholders with information on the results and financial position of the Group's significant listed associated company, Cathay Pacific Airways Limited, the following is a summary of its audited consolidated income statement and consolidated statement of comprehensive income for the year ended 31st December 2012 and consolidated statement of financial position as at 31st December 2012, modified to conform to the Group's accounts presentation.

Audit Qualification

The report of the auditor of Cathay Pacific Airways Limited on the consolidated financial statements for the year ended 31st December 2012 contains a qualification. The qualification relates to the inclusion in those financial statements of the Cathay Pacific group's share of the unaudited results for the year ended 30th September 2012 of Air China Limited ("Air China") and of the unaudited results of Air China Cargo Co., Ltd. ("Air China Cargo") for the year ended 31st December 2012.

The Cathay Pacific group has applied the equity method of accounting for its investments in Air China and Air China Cargo, to include in the Cathay Pacific group's consolidated financial statements for the year ended 31st December 2012 the Cathay Pacific group's share of the results and net assets of Air China for the year ended 30th September 2012 and as at that date (adjusted by the management of Cathay Pacific Airways Limited for any significant events or transactions for the period from 1st October 2012 to 31st December 2012) and of Air China Cargo for the year ended 31st December 2012 and as at that date.

In accordance with Hong Kong Standard on Auditing 600 ("HKSA 600"), Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors), Air China and Air China Cargo are considered to be significant components of the Cathay Pacific group, which should therefore be subject to audit as part of the audit of the Cathay Pacific group's financial statements. However, Air China's published quarterly results for the three months to 30th September 2012 were unaudited and it was not practicable for an audit to be performed on the management accounts of Air China for the year ended 30th September 2012. Also, the audited results of Air China and Air China Cargo for the year ended 31st December 2012 had not been made available to the auditor of Cathay Pacific as at the date of its report. As there were no other satisfactory audit procedures that the auditor of Cathay Pacific could adopt, it was unable to fulfil the requirements of HKSA 600.

Consequently, the auditor of Cathay Pacific was unable to apply the requirements of all of the applicable auditing standards and was unable to determine whether any adjustments were necessary to the carrying amount of the Cathay Pacific group's investments in Air China and Air China Cargo and the Cathay Pacific group's share of the results of these associates as included in the Cathay Pacific group's consolidated financial statements as at and for the year ended 31st December 2012.

The independent auditor's report on the Cathay Pacific group's consolidated financial statements for the year ended 31st December 2011 was also qualified due to its inability to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Cathay Pacific group's investment in Air China and the Cathay Pacific group's share of Air China's results for the year as included in the Cathay Pacific group's consolidated financial statements as at and for the year ended 31st December 2011 were fairly stated. Air China Cargo was not considered to be a component that was significant to the Cathay Pacific group for the year ended 31st December 2011.

Any adjustments that might have been found to be necessary in respect of the carrying amount of the Cathay Pacific group's investments in Air China and Air China Cargo as at 31st December 2011 and 2012 would have a consequential effect on the Cathay Pacific group's net assets as at 31st December 2011 and 2012, and the Cathay Pacific group's profit for the years then ended and related disclosures in its financial statements.

Impact on Swire Pacific Limited

Air China and Air China Cargo are not considered significant components of the Swire Pacific Group. The requirements of HKSA 600 have been fulfilled in relation to the consolidated financial statements of Swire Pacific Limited for the year ended 31st December 2012 and the auditors of Swire Pacific Limited have issued an unqualified opinion on those statements.

CATHAY PACIFIC AIRWAYS LIMITED

Consolidated Income Statement

For the year ended 31st December 2012

	2012 HK\$M	2011 HK\$M
Turnover	99,376	98,406
Operating expenses	(97,588)	(92,906)
Operating profit	1,788	5,500
Finance charges	(1,629)	(1,726)
Finance income	745	982
Net finance charges	(884)	(744)
Share of profits less losses of associated companies	641	1,717
Profit before taxation	1,545	6,473
Taxation	(417)	(803)
Profit for the year	1,128	5,670
Profit for the year attributable to:		
– Cathay Pacific's shareholders	916	5,501
– Non-controlling interests	212	169
	1,128	5,670
Dividends		
Interim – paid	–	708
Second interim – declared/paid	315	1,338
	315	2,046
	HK¢	HK¢
Earnings per share for profit attributable to Cathay Pacific's shareholders (basic and diluted)	23.3	139.8

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2012

	2012 HK\$M	2011 HK\$M
Profit for the year	1,128	5,670
Other comprehensive income		
Cash flow hedges		
– gains recognised during the year	1,818	485
– transferred to profit and loss	(222)	(1,081)
– transferred to assets	148	–
– deferred tax	(157)	50
Net fair value changes on available-for-sale financial assets		
– gains/(losses) recognised during the year	46	(217)
Share of other comprehensive income of associated companies	83	(158)
Net translation differences on foreign operations		
– recognised during the year	83	732
Other comprehensive income/(loss) for the year, net of tax	1,799	(189)
Total comprehensive income for the year	2,927	5,481
Total comprehensive income attributable to:		
Cathay Pacific's shareholders	2,715	5,312
Non-controlling interests	212	169
	2,927	5,481

Note:

Other than cash flow hedges as highlighted above, items shown within other comprehensive income have no tax effect.

Consolidated Statement of Financial Position

At 31st December 2012

	2012 HK\$M	2011 HK\$M
ASSETS AND LIABILITIES		
Non-current assets		
Fixed assets	84,278	73,498
Intangible assets	9,425	8,601
Investments in associates	18,481	17,894
Other long-term receivables and investments	6,617	5,783
	118,801	105,776
Current assets		
Stock	1,194	1,155
Trade, other receivables and other assets	10,833	10,605
Liquid funds	24,182	19,597
	36,209	31,357
Current liabilities		
Current portion of long-term liabilities	10,758	10,603
Related pledged security deposits	(2,601)	(2,041)
Net current portion of long-term liabilities	8,157	8,562
Trade and other payables	17,470	17,464
Unearned transportation revenue	9,581	9,613
Taxation	687	1,368
	35,895	37,007
Net current assets/(liabilities)	314	(5,650)
Total assets less current liabilities	119,115	100,126
Non-current liabilities		
Long-term liabilities	52,753	38,410
Related pledged security deposits	(1,364)	(3,637)
Net long-term liabilities	51,389	34,773
Other long-term payables	2,222	2,612
Deferred taxation	8,198	6,797
	61,809	44,182
NET ASSETS	57,306	55,944
EQUITY		
Share capital	787	787
Reserves	56,399	55,022
Equity attributable to Cathay Pacific shareholders	57,186	55,809
Non-controlling interests	120	135
TOTAL EQUITY	57,306	55,944

Notes to the Accounts

At 31st December 2012

Contingencies

- (a) Cathay Pacific Airways (“Cathay Pacific”) has under certain circumstances undertaken to maintain specified rates of return within the Cathay Pacific group’s leasing arrangements. The Directors of Cathay Pacific do not consider that an estimate of the potential financial effect of these contingencies can practically be made.
- (b) At 31st December 2012, contingent liabilities existed in respect of guarantees given by the Cathay Pacific group on behalf of associated companies and staff relating to lease obligations, bank loans and other liabilities of up to HK\$1,341 million (2011: HK\$689 million).
- (c) Cathay Pacific operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected outcome of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.
- (d) Cathay Pacific Airways (“Cathay Pacific”) remains the subject of antitrust proceedings in various jurisdictions and continues to defend itself vigorously. The proceedings are focused on issues relating to pricing and competition. Cathay Pacific is represented by legal counsel in connection with these matters.

In December 2008, Cathay Pacific received a Statement of Claim from the New Zealand Commerce Commission (“NZCC”) with regard to Cathay Pacific’s air cargo operations. In December 2012, Cathay Pacific and the NZCC reached an agreement to resolve this matter and in February 2013, the High Court of New Zealand, pursuant to such agreement, held a hearing. The Court has yet to enter its judgment.

In July 2009, Cathay Pacific received an Amended Statement of Claim (“ASOC”) from the Australian Competition & Consumer Commission with regard to Cathay Pacific’s air cargo operations. In November 2012, Cathay Pacific and the ACCC reached an agreement to resolve this matter and in December 2012, the Federal Court of Australia, pursuant to such agreement, entered its judgment against Cathay Pacific for A\$11.25 million and costs of A\$0.5 million (total equivalent to HK\$94.6 million at the exchange rate current as of the date of payment). Cathay Pacific has satisfied the judgment.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, Cathay Pacific and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57,120,000 (equivalent to HK\$618 million at the exchange rate current as of the date of the announcement) on Cathay Pacific. In January 2011, Cathay Pacific filed an appeal with the General Court of the European Union. The appeal is currently pending.

Cathay Pacific has been named as a defendant in a number of civil complaints, including class litigation and third party contribution claims, in a number of countries including the United States, Canada, the United Kingdom, the Netherlands and Australia alleging violations of applicable competition laws arising from Cathay Pacific’s conduct relating to its air cargo operations. In addition, civil class action claims have been filed in the United States and Canada alleging violations of applicable competition laws arising from Cathay Pacific’s conduct relating to certain of its passenger operations. Cathay Pacific is represented by legal counsel and is defending those actions.

The proceedings and civil actions, except as otherwise stated above, are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with the relevant accounting policy.