CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

Announcement

2020 Annual Results

CATHAY PACIFIC

Financial and Operational Highlights

Group Financial Statistics

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

Operating Statistics – Cathay Pacific and Cathay Dragon

		2020	2019	Change
Available tonne kilometres (“ATK”)	*Million*	**14,620**	33,077	**-55.8%**
Available seat kilometres (“ASK”)	*Million*	**34,609**	163,244	**-78.8%**
Available cargo tonne kilometres (“AFTK”)	*Million*	**11,329**	17,558	**-35.5%**
Revenue tonne kilometres (“RTK”)	*Million*	**10,220**	24,090	**-57.6%**
Passenger revenue per ASK	*HK cents*	**32.7**	44.2	**-26.0%**
Revenue passenger kilometres (“RPK”)	*Million*	**20,079**	134,397	**-85.1%**
Revenue passengers carried	*‘000*	**4,631**	35,233	**-86.9%**
Passenger load factor	*%*	**58.0**	82.3	**-24.3%pt**
Passenger yield	*HK cents*	**56.3**	53.7	**+4.8%**
Cargo revenue per AFTK	*HK$*	**2.17**	1.20	**+80.8%**
Cargo revenue tonne kilometres (“RFTK”)	*Million*	**8,309**	11,311	**-26.5%**
Cargo carried	*‘000 tonnes*	**1,332**	2,022	**-34.1%**
Cargo load factor	*%*	**73.3**	64.4	**+8.9%pt**
Cargo yield	*HK$*	**2.96**	1.87	**+58.3%**
Cost per ATK (with fuel)	*HK$*	**4.14**	3.06	**+35.3%**
Fuel consumption per million RTK	*Barrels*	**1,708**	1,867	**-8.5%**
Fuel consumption per million ATK	*Barrels*	**1,195**	1,360	**-12.1%**
Cost per ATK (without fuel)	*HK$*	**3.41**	2.19	**+55.7%**
Underlying** cost per ATK (without fuel)	*HK$*	**3.09**	2.19	**+41.1%**
ATK per HK$’000 staff cost	*Unit*	**1,074**	1,879	**-42.8%**
ATK per staff	*‘000*	**752**	1,256	**-40.1%**
Aircraft utilisation (including parked aircraft)	*Hours per day*	**4.3**	11.9	**-63.9%**
On-time performance	*%*	**86.7**	76.3	**+10.4%pt**
Average age of fleet	*Years*	**10.1**	10.3	**-0.2 years**
GHG emissions	*Million tonnes of CO_2e*	**7.0**	18.0	**-61.1%**
GHG emissions per ATK	*Grammes of CO_2e*	**480**	545	**-11.9%**
Lost time injury rate	*Number of injuries per 100 full-time equivalent employees*	**2.28**	5.33	**-57.2%**

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

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

Chairman's Statement

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

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

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

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

In October 2020 we announced an extremely difficult but necessary restructuring which sadly meant the loss of approximately 8,500 positions and the discontinuation of Cathay Dragon operations by the end of 2020. Additionally, we asked our Hong Kong-based pilots and cabin crew to transition onto new competitive conditions of service. We sincerely thank the 98.5% of pilots and 91.6% of cabin crew who accepted the new contracts.

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

Business Performance of Cathay Pacific and Cathay Dragon

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

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

Our cargo business was by far the better performer, though it too was affected by the substantial contraction in capacity usually provided by the bellies of our passenger aircraft. Yields increased and revenue improved due to the imbalance in the market between available capacity and demand. We increased cargo capacity by chartering services from our all-cargo subsidiary, Air Hong Kong, operating cargo-only passenger flights and carrying select cargo in the passenger cabins of some of our aircraft, and removing some seats in the Economy Class cabins of four Boeing 777-300ERs to provide further cargo space.

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

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

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

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

We reached agreement with Airbus to defer delivery of our A350-900 and A350-1000 aircraft from 2020-21 to 2020-23, and to defer delivery of A321neo aircraft from 2020-23 to 2020-25. Advanced negotiations are taking place with Boeing for the deferral of the delivery of our 777-9 aircraft. 10 aircraft were delivered in 2020 (including our first A321neo, in November). These aircraft will modernise our fleets and improve efficiency.

Business Performance of Other Subsidiaries and Associates

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

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

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

Prospects

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

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

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

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

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

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

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

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

Patrick Healy
Chairman
Hong Kong, 10th March 2021

Review of Operations

Capacity, Load Factor and Yield Change – Cathay Pacific and Cathay Dragon

	Capacity ASK/AFTK (million)*			Load factor (%)			Yield
	2020	2019	Change	2020	2019	Change	Change
Passenger services							
Americas	**10,762**	43,555	**-75.3%**	**54.3**	82.9	**-28.6%pt**	**+11.2%**
Europe	**7,276**	34,677	**-79.0%**	**58.5**	86.0	**-27.5%pt**	**+5.4%**
Southwest Pacific	**5,341**	18,799	**-71.6%**	**60.7**	85.4	**-24.7%pt**	**+8.8%**
North Asia	**4,693**	31,914	**-85.3%**	**61.0**	76.6	**-15.6%pt**	**+5.5%**
Southeast Asia	**4,258**	21,483	**-80.2%**	**57.1**	81.3	**-24.2%pt**	**+11.4%**
South Asia, Middle East and Africa	**2,279**	12,816	**-82.2%**	**63.6**	82.2	**-18.6%pt**	**-1.5%**
Overall	**34,609**	163,244	**-78.8%**	**58.0**	82.3	**-24.3%pt**	**+4.8%**
Cargo services	**11,329**	17,558	**-35.5%**	**73.3**	64.4	**+8.9%pt**	**+58.3%**

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

Americas

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

Europe

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

Southwest Pacific

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

North Asia

- Throughout February and March, Cathay Pacific and Cathay Dragon progressively reduced passenger capacity on flights to and from the Chinese mainland by about 85%.
- When travel restrictions were put in place around the world, Cathay Pacific supported the Hong Kong SAR Government in operating charter flights to bring affected Hong Kong residents home. These included three flights from Tokyo and eight flights from Wuhan and the wider Hubei Province.
- In April 2020, Cathay Pacific and Cathay Dragon began operating a skeleton passenger flight schedule that included the temporary suspension of flight services to many of their destinations in North Asia. Some destinations were progressively resumed over the following months.
- In August 2020, the Hong Kong SAR Government lifted the ban on ex-Chinese mainland transit via Hong Kong International Airport, which led to a gradual increase in demand, in particular student travel.
- In November 2020, Cathay Pacific resumed passenger and cargo services to Kaohsiung, and cargo services to Fukuoka, which had been previously operated by Cathay Dragon.
- At 31st December 2020, Cathay Pacific was operating flights to the following destinations in North Asia: Beijing, Shanghai (Pudong), Kaohsiung, Taipei, Osaka, Tokyo and Seoul.

Southeast Asia

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

South Asia, Middle East and Africa

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

Cargo Services

- Cargo was the better performer in 2020 despite the significant drop in available capacity usually provided by the bellies of passenger aircraft. The freighter fleet was operating at full capacity for much of the year, supplemented by additional capacity in the form of 5,648 cargo-only passenger flights, 680 charter flights operated by the Group's all-cargo subsidiary Air Hong Kong, and 143 flights with select cargo loaded in the passenger cabins.
- Demand for medical supplies replaced weaker traditional flows.
- In July 2020 we introduced the first of our reconfigured Boeing 777-300ER aircraft, which have had some of the Economy Class seats removed to provide additional cargo space and enabling us to load shipments such as personal protective equipment (PPE). These aircraft were predominantly used for long-haul shipments.
- We saw greater movements of pharmaceutical products and live animal shipments across the network in August 2020, while our time-sensitive product – Priority LIFT – was in good demand.
- In September 2020, we began uplifting mail for Hongkong Post in our passenger cabins using our reconfigured Boeing 777-300ER "freighters". These aircraft were also deployed to run a new, temporary service to Pittsburgh serving the seasonal upsurge in demand.
- Following the National Day Holidays at the beginning of October 2020, demand from our home market, Hong Kong, and the Chinese mainland rebounded quickly, driven by new electronic products.
- We continued to add to our specialised products capability with the introduction of a Skid-Size Fire Containment Bag solution, enabling the safe transport of lithium-ion batteries packed on skids. This solution is being progressively rolled out across our network.
- Demand on the US-China trade lane is back to pre-COVID-19 levels as a result of robust e-commerce.
- In November 2020, we expanded our network commencing a freighter charter series into Riyadh, Saudi Arabia, which was underpinned by inbound e-commerce demand. In December 2020 we further launched a seasonal service into Hobart, Australia to support exports of fresh produce from Tasmania into different parts of Asia.
- Cathay Pacific began preparing customised vaccine solutions for certain customers as part of efforts to gear up to assist in the distribution of vaccines in the first and second quarters of 2021.

Fleet development

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

Fleet profile*

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

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

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

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

(a) The operating lease of one Airbus A320-200 aircraft expired in February 2021. The aircraft was returned to its lessor.
(b) Three Airbus A321neo aircraft and one A320neo aircraft are on operating leases.
(c) One aircraft was delivered in March 2021.

Financial Review

Revenue

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

Operating expenses

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

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

Operating results analysis

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

Notes:

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

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

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

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

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

Notes:

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

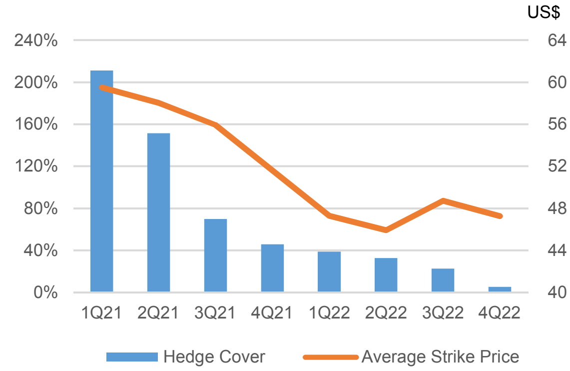
Fuel expenditure and hedging

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

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

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

Projected fuel hedging cover



Assets

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

Borrowings and capital

- Borrowings decreased by 4.2% to HK$93,129 million. These are mainly denominated in United States dollars, Hong Kong dollars and Japanese yen, and are fully repayable by 2035, with 45.3% currently at fixed rates of interest after taking into account derivative transactions. Excluding lease liabilities previously classified as operating leases, borrowings decreased by 4.2% to HK$74,039 million, which are fully repayable by 2035, with 33.8% at fixed rates of interest with a similar currency profile.
- Available unrestricted liquidity at 31st December 2020 totalled HK$28,593 million, comprising liquid funds of HK$19,341 million and committed undrawn facilities of HK$9,396 million, less pledged funds of HK$144 million. To secure further liquidity in this difficult environment, earlier this year we issued HK$6.74 billion in convertible bonds, which will become due in 2026.
- Net borrowings (after deducting liquid funds) decreased by 10.4% to HK$73,788 million. Disregarding the effect of adopting HKFRS 16, net borrowings decreased by 12.4% to HK$54,698 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 16.7% to HK$73,257 million. This was due to the Group's issuance of preference and rights shares during the year totalling HK$31.2 billion and an increase in other comprehensive income of HK$0.9 billion, offset by losses for the year of HK$21.6 billion.
- Disregarding the effect of adopting HKFRS 16 on net borrowings, the net debt/equity ratio decreased from 0.99 times to 0.75 times (against borrowing covenants of 2.0). Taking into account the effect of adopting HKFRS 16 on net borrowings, the net debt/equity ratio was 1.01 and 1.31 times at 31st December 2020 and 31st December 2019 respectively.

Review of subsidiaries and associates

- HK Express recorded a significant after-tax loss of HK$1,723 million in 2020, compared with a loss of HK$246 million in the period from acquisition on 20th July 2019 to 31st December 2019. Capacity amounted to 1,742 million available seat kilometres, reflecting the airline's temporary suspension of flight operations. The average flown load factor was 71.0% during the year, a decrease of 16.8 percentage points as compared to the comparative period.
- AHK Air Hong Kong Limited's results attributable to the shareholders of Cathay Pacific improved compared with those of 2019 due to additional COVID-19 related air cargo demand with 680 extra sectors flown for Cathay Pacific. There was an imbalance between capacity and demand in the cargo market. Compared with 2019, capacity (in terms of available tonne kilometers) increased by 31% to 922 million.
- Cathay Pacific Catering Services (H.K.) Limited ("CPCS") produced 4.7 million meals and handled 16,871 flights in 2020 (representing a daily average of 12,806 meals and 46 flights, a decrease of 84% and 76% respectively from 2019, due to the impact of COVID-19). CPCS's losses in 2020 were materially worse than 2019 due to significantly lower meal volumes and asset impairments of HK$526 million, despite the financial relief measures received from the government or Hong Kong Airport Authority in the form of Employment Support Schemes and various airport charge reductions. The profits of the flight kitchens outside Hong Kong decreased significantly compare to the previous year due to the impact of COVID-19.
- Cathay Pacific Services Limited ("CPSL") provided cargo handling services for the Cathay Pacific Group and 15 other airlines in 2020. It handled 1.4 million tonnes of cargo in 2020 (a decrease of 26% compared with 2019), 48% of which were trans-shipments. Export and import shipments accounted for 33% and 19% respectively of the total. The financial results in 2020 declined compared with those of 2019. This was mainly due to lower tonnage handled, as a result of reduced capacity in passenger flights affected by the pandemic, despite the financial relief measures received from the government or Hong Kong Airport Authority in the form of Employment Support Schemes and various airport charge reductions.
- The financial results of Hong Kong Airport Services Limited in 2020 were adversely affected by the pandemic despite the financial relief measures received from the government or Hong Kong Airport Authority in the form of Employment Support Schemes and various airport charge reductions.
- Vogue Laundry Service Limited, 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 2020 declined compared with those of 2019 mainly due to lower volume of laundry items due to being adversely affected by the pandemic and asset impairments of HK$658 million, despite the financial relief measures received from the government in the form of Employment Support Schemes.
- Air China Limited ("Air China"), in which Cathay Pacific had a 18.13% interest at 31st December 2020, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in the Chinese mainland. The Group's share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently the 2020 results include Air China's results for the 12 months ended 30th September 2020, adjusted for any significant events or transactions for the period from 1st October 2020 to 31st December 2020. The cross shareholding impact of the Cathay Pacific Group restructuring and impairment costs in the last quarter of the year qualifies as an adjusting entry; accordingly a charge of HK$264 million was incorporated in the Group's results. For the 12 months ended 30th September 2020, Air China's financial results declined compared to those for the 12 months ended 30th September 2019.
- Air China Cargo Co., Ltd., in which Cathay Pacific owns an equity and an economic interest totalling 34.78%, as at 31st December 2020, is the leading provider of air cargo services in the Chinese mainland. Despite a substantial reduction of the belly capacity of passenger aircraft as a result of the COVID-19 pandemic, significantly improved yields, higher utilisation of freighters and lower fuel prices resulted in Air China Cargo's financial results in 2020 being significantly better than last year.

Corporate Responsibility

- Our sustainable development report for 2020 will be published in May 2021. It will be available at https://www.cathaypacific.com/cx/en_HK/about-us/environment/overview/introduction.html
- In 2020, Cathay Pacific committed to achieving net zero carbon emissions by 2050, through an international approach, working with governments around the world and through the United Nations.
- Cathay Pacific participates in an International Civil Aviation Organization (ICAO) task force that leads the aviation industry's work in developing proposals for a fair, equitable and effective global agreement on emissions. We also take part in the ICAO Fuel Task Group which specialises in the adoption of sustainable aviation fuel.
- Cathay Pacific engages with regulators and groups (the IATA Sustainability and Environment Advisory Committee, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- In response to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), the Cathay Pacific Group has completed all the necessary preparation and the monitoring, verification and reporting plan has been accepted by the authority.
- In compliance with the European Union's Emissions Trading Scheme, our 2020 emissions data from intra-EU flights were reported on by an external auditor and submitted to the UK Environment Agency in March 2021.
- In February when demand was high for medical supplies but flights were disrupted, our cargo facility worked with Hongkong Post to help facilitate the operation of its Air Mail Centre to ease delivery bottlenecks. During the month-long special operation, more than 90,000 shipments were processed.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Since its introduction in 1991, HK$199 million has been raised through the programme. In 2019, the latest audited year, HK$6.8 million was raised. An average of one month's proceeds to the "Change for Good" programme are passed to the Cathay Pacific Wheelchair Bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases.
- At 31st December 2020, the Cathay Pacific Group employed more than 25,600 people worldwide. Around 20,800 of these people are based in Hong Kong. Cathay Pacific employed more than 19,400 permanent employees worldwide. Around 75% of these people are based in Hong Kong.
- We 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 2020

	Note	2020 HK$M	2019 HK$M
Revenue			
Passenger services		**11,950**	73,985
Cargo services		**27,890**	23,810
Other services and recoveries		**7,094**	9,178
Total revenue		**46,934**	106,973
Expenses			
Staff		**(15,786)**	(20,125)
Inflight service and passenger expenses		**(1,102)**	(5,306)
Landing, parking and route expenses		**(6,868)**	(17,758)
Fuel, including hedging losses		**(11,379)**	(29,812)
Aircraft maintenance		**(5,772)**	(9,858)
Aircraft depreciation and rentals		**(11,879)**	(12,022)
Other depreciation, amortisation and rentals		**(2,720)**	(2,991)
Commissions		**(146)**	(927)
Others		**(2,987)**	(4,847)
Operating expenses		**(58,639)**	(103,646)
Operating (loss)/profit before non-recurring items		**(11,705)**	3,327
Restructuring costs	17	**(2,383)**	-
Impairment and related charges	17	**(4,056)**	-
Gain on deemed partial disposal of an associate		**-**	114
Operating (loss)/profit	4	**(18,144)**	3,441
Finance charges		**(3,044)**	(3,276)
Finance income		**149**	337
Net finance charges	5	**(2,895)**	(2,939)
Share of (losses)/profits of associates		**(1,282)**	1,643
(Loss)/profit before taxation		**(22,321)**	2,145
Taxation	6	**674**	(454)
(Loss)/profit for the year		**(21,647)**	1,691
Attributable to			
Ordinary shareholders of Cathay Pacific		**(21,876)**	1,691
Preference shareholder of Cathay Pacific		**228**	-
Non-controlling interests		**1**	-
(Loss)/profit for the year		**(21,647)**	1,691
(Loss)/earnings per ordinary share (2019 restated)			
Basic and diluted	7	**(424.3)¢**	39.1¢
(Loss)/profit for the year		**(21,647)**	1,691
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**(1,041)**	551
Share of other comprehensive income of associates		**(203)**	(186)
Exchange differences on translation of foreign operations		**1,638**	(472)
Items that may not be reclassified subsequently to profit or loss:			
Defined benefit plans		**599**	1,061
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		**-**	33
Other comprehensive income for the year, net of taxation	8	**993**	987
Total comprehensive income for the year		**(20,654)**	2,678
Total comprehensive income attributable to			
Ordinary shareholders of Cathay Pacific		**(20,883)**	2,678
Preference shareholder of Cathay Pacific		**228**	-
Non-controlling interests		**1**	-
		(20,654)	2,678

Consolidated Statement of Financial Position

at 31st December 2020

	Note	2020 HK$M	2019 HK$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Property, plant and equipment	9	**131,925**	140,114
Intangible assets	10	**15,061**	15,151
Investments in associates		**26,489**	27,055
Other long-term receivables and investments		**2,905**	3,823
Deferred tax assets		**627**	1,089
		177,007	187,232
Interest-bearing liabilities	11	**(68,880)**	(76,508)
Other long-term payables		**(4,210)**	(4,806)
Deferred tax liabilities		**(11,499)**	(13,564)
		(84,589)	(94,878)
Net non-current assets		**92,418**	92,354
Current assets and liabilities			
Stock		**1,719**	1,812
Trade and other receivables	12	**6,469**	10,608
Assets held for sale		**38**	-
Liquid funds	13	**19,341**	14,864
		27,567	27,284
Interest-bearing liabilities	11	**(24,249)**	(20,752)
Trade and other payables	14	**(12,376)**	(18,218)
Contract liabilities		**(8,122)**	(15,941)
Taxation		**(1,977)**	(1,951)
		(46,724)	(56,862)
Net current liabilities		**(19,157)**	(29,578)
Total assets less current liabilities		**157,850**	157,654
Net assets		**73,261**	62,776
CAPITAL AND RESERVES			
Share capital	15	**48,322**	17,106
Reserves		**24,935**	45,667
Funds attributable to the shareholders of Cathay Pacific		**73,257**	62,773
Non-controlling interests		**4**	3
Total equity		**73,261**	62,776

CATHAY PACIFIC

Consolidated Statement of Cash Flows

for the year ended 31st December 2020

	Note	**2020 HK$M**	2019 HK$M
Operating activities			
Cash (used in)/generated from operations		**(11,237)**	18,458
Interest received		**92**	179
Interest paid		**(2,223)**	(3,010)
Tax paid		**(923)**	(285)
Net cash (outflow)/inflow from operating activities		**(14,291)**	15,342
Investing activities			
Purchase of subsidiaries		**-**	(1,697)
Net (increase)/decrease in liquid funds other than cash and cash equivalents		**(7,150)**	1,796
Proceeds from sales of property, plant and equipment		**153**	134
Net increase in other long-term receivables and investments		**(2)**	(60)
Payments for property, plant and equipment and intangible assets		**(5,418)**	(12,171)
Dividends received from associates		**675**	394
Loan to an associate		**(16)**	-
Net cash outflow from investing activities		**(11,758)**	(11,604)
Financing activities			
New financing		**22,304**	16,975
Initial cash benefit from lease arrangements		**-**	837
Loan and lease repayments		**(30,134)**	(18,785)
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)**	-
Dividends paid - to ordinary shareholders of Cathay Pacific		**-**	(1,495)
- to non-controlling interests		**-**	(1)
Net cash inflow/(outflow) from financing activities		**23,309**	(2,469)
Net (decrease)/increase in cash and cash equivalents		**(2,740)**	1,269
Cash and cash equivalents at 1st January		**8,881**	7,653
Effect of exchange differences		**25**	(41)
Cash and cash equivalents at 31st December		**6,166**	8,881

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 2020.

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 2019 and 2020 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 2019 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 2020 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 2019 and 2020. 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 policy adopted for government grants is as follows:

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

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

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

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

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.

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

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

2. Changes in accounting policies (continued)

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

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

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

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

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

Amendment to HKFRS 16 “COVID-19-Related Rent Concessions”

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

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

3. Segment information

(a) Segment results

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

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

3. **Segment information (continued)**

(i) Cathay Pacific and Cathay Dragon (until 21st October 2020) provide full service international passenger and cargo air transportation under the Cathay Pacific and Cathay Dragon brands. Management considers that there is no suitable basis for allocating operating results between passenger and cargo operations. Accordingly these are not disclosed as separate business segments.

(ii) HK Express is a low cost passenger carrier offering scheduled services within Asia.

(iii) Air Hong Kong provides express cargo air transportation offering scheduled services within Asia.

(iv) Airline services represents our supporting airline operations including catering, cargo terminal operations, ground handling services and commercial laundry operations.

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

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

(b) Geographical information

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

Geographical segment results and segment net assets are not disclosed for the reasons set out in the 2020 Annual Report.

4. **Operating (loss)/profit**

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

5. Net finance charges

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

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

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

6. Taxation

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

Hong Kong profits tax is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 28(c) to the financial statements in the 2020 Annual Report).

6. Taxation (continued)

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

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

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

Further information on deferred taxation is shown in note 14 to the financial statements in the 2020 Annual Report.

7. (Loss)/earnings per ordinary share

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

(a) The (loss)/profit amounts represent the (loss)/profit attributable to the ordinary shareholders of Cathay Pacific, which is the (loss)/profit for the year after non-controlling interests and dividends attributable to the holder of the cumulative preference shares classified as equity (see note 16(c) below).

(b) On 10th August 2020, the Company issued 2,503,355,631 new ordinary shares at HK$4.68 each by way of rights issue to qualifying ordinary shareholders. As required by HKAS 33 “Earnings per Share”, a retrospective adjustment of 391,107,005 shares representing the bonus element in the rights issue was applied to the calculation of the weighted average number of ordinary shares for the periods prior to the rights issue. Basic and diluted (loss)/earnings per ordinary share for the prior periods have been restated accordingly.

(c) On 12th August 2020, the Company issued warrants which entitle the holder to subscribe for up to 416,666,666 ordinary shares. The Company’s warrants as at 31st December 2020 have an anti-dilutive effect to the loss per ordinary share and there are no other potential dilutive ordinary shares in existence during the years ended 31st December 2020 and 2019, and hence diluted (loss)/earnings per ordinary share is the same as the basic (loss)/earnings per ordinary share.

8. Other comprehensive income

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

9. Property, plant and equipment

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

(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 (see note 10 below) that there are 34 owned and leased aircraft, under the Cathay Pacific and Cathay Dragon segment as disclosed in note 3 above, that are unlikely to re-enter meaningful economic service again before their retirement or return to lessors by the end of 2021. Consequently an impairment charge of HK$2,764 million was recognised during the year to write off these aircraft assets in full. Any delay of the base case passenger traffic recovery profile could result in further impairment charges in future periods. The carrying value at 31st December 2020 of aircraft which are expected to retire or be returned to lessors in the first half of 2022 is HK$0.8 billion. At present, it is expected that such aircraft will re-enter meaningful economic service before their retirement or return to lessors.

(b) An impairment charge of HK$526 million (which comprises HK$143 million of other equipment and HK$383 million of land and buildings) was recognised to reduce the carrying values of Cathay Pacific Catering Services (H.K.) Limited ("CPCS")'s property, plant and equipment to its value in use. CPCS operates the principal flight kitchen in Hong Kong. The recoverable amount for this cash generating unit ("CGU") at 31st December 2020 is HK$847 million.

(c) An impairment charge of HK$658 million (which comprises HK$170 million of other equipment and HK$488 million of land and buildings) was recognised to reduce the carrying values of Vogue Laundry Service Limited ("VLS")'s property, plant and equipment to its value in use. VLS provides a comprehensive range of services in laundry and dry cleaning of commercial linen, uniforms and guest garments. The recoverable amount for this CGU at 31st December 2020 is HK$983 million.

9. Property, plant and equipment (continued)

(d) Both CPCS and VLS form part of the Airline services reportable segment disclosed in note 3 above. Values in use were determined using cash flow projections to reflect decreased passenger demand and thus revenues of CPCS and VLS (see note 10 below). The pre-tax discount rates used in the value in use assessments for CPCS and VLS were 9.0% and 9.0% respectively.

(e) Further, impairments on properties under leases totalling HK$25 million have been recognised during the year reflecting a reduction in the expected usage of various rented buildings as a result of the pandemic.

Further details surrounding the impact of COVID-19 on the Group are disclosed in note 17 below.

10. Intangible assets

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

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

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

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

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

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

10. **Intangible assets (continued)**

For the Cathay Pacific CGU the base case assumes, in line with IATA's economic outlook, that a recovery in passenger traffic commences in the second half of 2021 but does not return to pre-crisis levels until 2024. Revenue efficiency during the recovery period is assumed to remain weaker than historical actuals as demand is stimulated. A ten-year forecast is considered appropriate for the airline operations to take into account this recovery period and thereafter a phased opening of slot availability associated with the new Three Runway System at Hong Kong International Airport. Consequently during the period 2025-2030 it is assumed that growth will be slightly elevated with revenue efficiency marginally weaker than historical averages. The downside scenario reflects an outcome where global economic conditions recover but are subdued with lower demand across the network, and thus capacity is reduced to preserve revenue efficiency. Cash flows beyond the ten-year period are extrapolated with an estimated general annual growth rate of 2.25% (2019: 2.25%) which does not exceed the long-term average growth rate for the industry (IATA's most recent 20 year global forecast is 3.7%). Cash outflows include capital and maintenance expenditure for the purchase of aircraft and other property, plant and equipment. The discount rate used of 7.4% (2019: 7.2%) is pre-tax and reflects the specific risks related to the relevant segment. Both the base case and downside case result in headroom over the carrying values of the CGU as at 31st December 2020 and consequently no impairment has been made. Compared with the 2019 impairment test, the negative impacts of the pandemic recovery period have been partially offset by the long term benefits of our restructuring in late 2020 (see note 17(a)(iii) below) and the anticipated migration of marginal or loss making ex-Cathay Dragon routes to the better suited low cost carrier model of HK Express.

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

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

Impairment testing of our Airline service CGUs adopts, to the extent relevant, consistent recovery assumptions as the Cathay Pacific CGU. Impairments of goodwill (included within 'Others') attributable to CPCS and VLS of HK$39 million were booked to reduce the carrying values of assets to their estimated recoverable amounts. This also impacted the carrying value of their property, plant and equipment (see note 9 above.

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.

11. Interest-bearing liabilities

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

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

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

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

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

12. Trade and other receivables

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

	2020 HK$M	2019 HK$M
Analysis of trade debtors (net of loss allowances) by invoice date:		
Within one month	**2,608**	4,374
One to three months	**505**	713
More than three months	**268**	472
	3,381	5,559

	2020 HK$M	2019 HK$M
Analysis of trade debtors (net of loss allowances) by age:		
Current	**2,916**	4,984
Within three months overdue	**221**	430
More than three months overdue	**244**	145
	3,381	5,559

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

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

13. 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 16 to the financial statements in the 2020 Annual Report) of HK$19,341 million (2019: HK$14,864 million) that is available for managing liquidity risk.

13. Liquid funds

(a) Financial arrangements

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

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

	2020 HK$M	2019 HK$M
Uncommitted bank overdraft facilities	**343**	330
Other uncommitted bank facilities	**775**	100
	1,118	430

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

(b) Payment profile of financial liabilities

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

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

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

14. Trade and other payables

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

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

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

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

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

15 Share capital

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

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

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

15 Share capital (continued)

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

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

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

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

The preference shares will accrue dividends at the rate of:

(a) 3% per annum from and including the Issue Date to but excluding the date falling three years from the Issue Date (the “First Step-up Date”);

(b) 5% per annum from and including the First Step-up Date to but excluding the date falling four years from the Issue Date (the “Second Step-up Date”);

(c) 7% per annum from and including the Second Step-up Date to but excluding the date falling five years from the Issue Date (the “Third Step-up Date”); and

(d) 9% per annum from and including the Third Step-up Date

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

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

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

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

16. Dividends

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

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

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

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

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

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

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

The Company's dividend policy is to distribute approximately half of its consolidated profit after tax, excluding non-cash exceptional items. The application of this policy and final declarations are however subject to consideration of other factors, such as the strength of the Company's own statement of financial position, the Company's own profits, trading conditions and the prevailing and forecast economic environment.

To facilitate the processing of proxy voting for the annual general meeting to be held on 12th May 2021, the register of members will be closed from 7th May 2021 to 12th May 2021, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 6th May 2021.

17. Impacts of COVID-19

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

(a) Liquidity and going concern

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

(i) Initial cash preservation measures

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

(ii) Recapitalisation

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

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

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

The impacts of the Recapitalisation on Earnings per ordinary share, Share capital and Dividends are disclosed in notes 7, 15 and 16 above, respectively.

(iii) Restructuring

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

- Cathay Dragon ceased operations with effect from 21st October 2020 and ongoing regulatory approval was or will be sought for a significant number of Cathay Dragon's routes to be operated by Cathay Pacific and HK Express. This aims to achieve operational efficiency and brand synergy that will result in a more focused, efficient and competitive business for the Group.

17. Impacts of COVID-19 (continued)

- Approximately 5,900 redundancies were effected across the Cathay Pacific Group (including Cathay Dragon), representing approximately 17% of the Cathay Pacific Group's established headcount.
- Hong Kong-based cabin and cockpit crew of Cathay Pacific were asked to transition onto new conditions of service which were designed to match remuneration more closely to productivity and to enhance market competitiveness.

As of 31st December 2020, the restructuring has been substantially implemented. The restructuring costs of HK$2,383 million were primarily associated with the costs of redundancies. An additional write off of deferred tax assets on tax losses of HK$1,590 million for Cathay Dragon was also recognised under note 6 above, Taxation.

Taking into account the net impact from the above, which resulted in unrestricted liquidity of HK$28.6 billion at 31st December 2020, and from the proceeds of HK$6.7 billion guaranteed convertible bonds in February 2021, as disclosed under note 18 below, Event after the reporting period, the directors have assessed cash flow forecasts under various scenarios, including extended downside scenarios of continued, heavily subdued passenger demand across the Group's network through the forecast period, and are of the opinion that the Group currently has sufficient unrestricted liquidity for at least the next 12 months from the date of approval of the consolidated financial statements.

(b) Asset carrying values

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

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

(i) The reduction in asset values (HK$2,764 million, note 9 above) on 34 aircraft that are unlikely to re-enter meaningful economic service again before their retirement or return to lessors, and adjustment to the provision for fulfilling lease return conditions of leased aircraft included therein (HK$12 million net credit).

(ii) Impairments on goodwill (totalling HK$39 million, note 10 above) and assets of CPCS and VLS (totalling HK$1,184 million, note 9 above) to reduce the carrying values of assets to their estimated recoverable amounts; being the higher of fair value less costs of disposal and value in use.

(iii) Impairments on properties under leases totalling HK$25 million (see note 9 above).

(iv) Impairment on investment in an associate of HK$56 million (see note 9 to the financial statements in the 2020 Annual Report).

The above excludes the cross shareholding effect with Air China.

No other impairment was identified. Details on goodwill impairment assessments are disclosed in note 10 above.

(c) Government grants and other assistance

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

HK$1,503 million in respect of income grants are presented as revenue from other services and recoveries. HK$1,186 million in relation to cost reductions and waivers are presented net of the respective cost categories. There were no unfulfilled conditions or contingencies attached to the grants at the year end.

17. Impacts of COVID-19 (continued)

(i) Hong Kong

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

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

(ii) Outport

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

(d) COVID-19 related rent concessions

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

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

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

18. Event after the reporting period

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

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

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 believes do not benefit shareholders:

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by the Board as to suitability for the role.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

19. Corporate governance (continued)

On specific enquiries made, all Directors of the Company have confirmed that, in respect of the accounting period covered by the annual report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

Details of the Company's corporate governance principles and processes will be available in the 2020 Annual Report.

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

20. Annual report

The 2020 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 7th April 2021, and copies will be dispatched to shareholders on 8th April 2021.

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: Michelle Low, 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, 10th March 2021

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.