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CATHAY PACIFIC AIRWAYS LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 293)

Audit Qualification

It is likely that the report of the auditors of Cathay Pacific Airways Limited (the “**Company**”) on the consolidated financial statements of the Company and its subsidiaries for the year ending 31st December 2011 will contain a qualification. The qualification will relate to the inclusion in those financial statements of the Company’s share of the unaudited results for the year ended 30th September 2011 of the Company’s investment in an associate company, Air China Limited (“**Air China**”).

Background

Under Hong Kong Standard on Auditing 600, *Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (“**HKSA 600**”), an audit is required to be performed on the financial information of each component which is of individual financial significance to a group. HKSA 600 applies to the group (the “**Group**”) comprised of the Company, its subsidiaries and its associate companies. Having regard to the requirements of HKSA 600, Air China is likely, due to its individual financial significance, to be considered a significant component of the Group for the purposes of the audit of the consolidated financial statements of the Company for the year ending 31st December 2011. The Company holds 19.53% of the issued share capital of Air China.

Audit Qualification

The Group’s share of the financial results of Air China are equity accounted for in the Company’s consolidated financial statements three months in arrear, which is permissible under applicable Hong Kong Financial Reporting Standards. The reason for this is that Air China’s audited financial statements for its financial years ending 31st December are not available until after the date on which the Company publishes its own results for its financial years ending 31st December (in March of the following year). This being so, the Company’s consolidated financial statements for the year ending 31st December 2011 will, consistently with the practice in previous years, include the Company’s share of Air China’s results for the year ended 30th September 2011.

Air China prepared its 30th September 2011 quarterly results in accordance with Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and announced the results publicly on 27th October 2011. The financial information contained in Air China's management accounts for the period from 1st October 2010 to 30th September 2011 is prepared on the same basis as its quarterly results announcements and is adjusted by the Company's management for any differences to conform to the Company's accounting policies and will be adjusted for any significant events or transactions of Air China for the period from 1st October 2011 to 31st December 2011. This procedure is consistent with that adopted in previous years. It was not practicable to perform an audit of Air China's financial information for the period from 1st October 2010 to 30th September 2011 prior to the announcement of Air China's quarterly results to 30th September 2011 on 27th October 2011. As the A shares of Air China are listed on the Shanghai Stock Exchange, Air China is required by the Shanghai Stock Exchange to publish its third quarterly results by 31st October and this is in compliance with the relevant regulatory requirements in Mainland China.

It is likely that Air China will be considered by the Company's auditors to be a significant component of the Group for the purposes of their audit of the consolidated financial statements of the Company for the year ending 31st December 2011 and, based on the aforementioned circumstances, the report of the auditors on the consolidated financial statements of the Company for the year ending 31st December 2011 will contain a qualification. A section headed "Basis for qualified opinion" is likely to appear in the report of the auditors along the following lines:

"Included in the consolidated statement of financial position is an investment in an associate, Air China Limited ("**Air China**"). As stated in note [●] to the financial statements, the Group applies the equity method to account for its investment in Air China using financial information at 30 September. In respect of the year ended 31st December 2011, the Group has used financial information of Air China as at and for the year ended 30th September 2011 based on unaudited financial information contained in Air China's management accounts in respect of the period from 1st October 2010 to 30th September 2011, prepared in accordance with Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. The financial information has been adjusted by the Company's management for any differences to conform to the accounting policies set out in note [●] to the financial statements and any significant events or transactions of Air China for the period from 1st October 2011 to 31st December 2011. On this basis, the Group's share of the profits and net assets of Air China for the year ended 30th September 2011 and as at that date included in the Company's consolidated financial statements for the year ended 31st December 2011 amounted to HK\$[●] million and HK\$[●] million, respectively.

Hong Kong Standard on Auditing 600 ("**HKSA 600**"), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, first became effective for audits of financial statements beginning on or after 15th December 2009. HKSA 600 requires us to consider whether Air China is a significant component of the Group. For the year ended 31st

December 2011, Air China contributed [●]% of the Group's profit before tax and is, accordingly, considered to be a component that is significant due to its individual financial significance to the Group. HKSA 600 requires that an audit be performed on the financial information of all such significant components.

Air China published its unaudited quarterly results for the three months to 30th September 2011 on 27th October 2011. It was not practicable for an audit to be performed on the management accounts of Air China for the year ended 30th September 2011 prior to the announcement of its results for the quarter to 30th September 2011. The audited results of Air China for the year ended 31 December 2011 have not been published as at the date of this report. As a result, the requirements of HKSA 600 have not been fulfilled. There were no other satisfactory audit procedures that we could adopt and therefore we were unable to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Group's investment in Air China and the Group's share of Air China's results for the year as included in the Company's consolidated financial statements as at and for the year ended 31st December 2011 were fairly stated. Consequently, we were unable to determine whether any adjustments to these amounts were necessary and to apply the requirements of all of the applicable auditing standards."

As at the date of this announcement, the Directors of the Company are:

Executive Directors: Christopher Pratt (Chairman), James Barrington, Ivan Chu, Martin Murray and John Slosar;

Non-Executive Directors: Cai Jianjiang, Fan Cheng, James W.J. Hughes-Hallett, Peter Kilgour, Kong Dong, Ian Shiu, Merlin Swire and Zhao Xiaohang; and

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

By Order of the Board
Cathay Pacific Airways Limited
David Fu
Company Secretary

Hong Kong, 21st November 2011