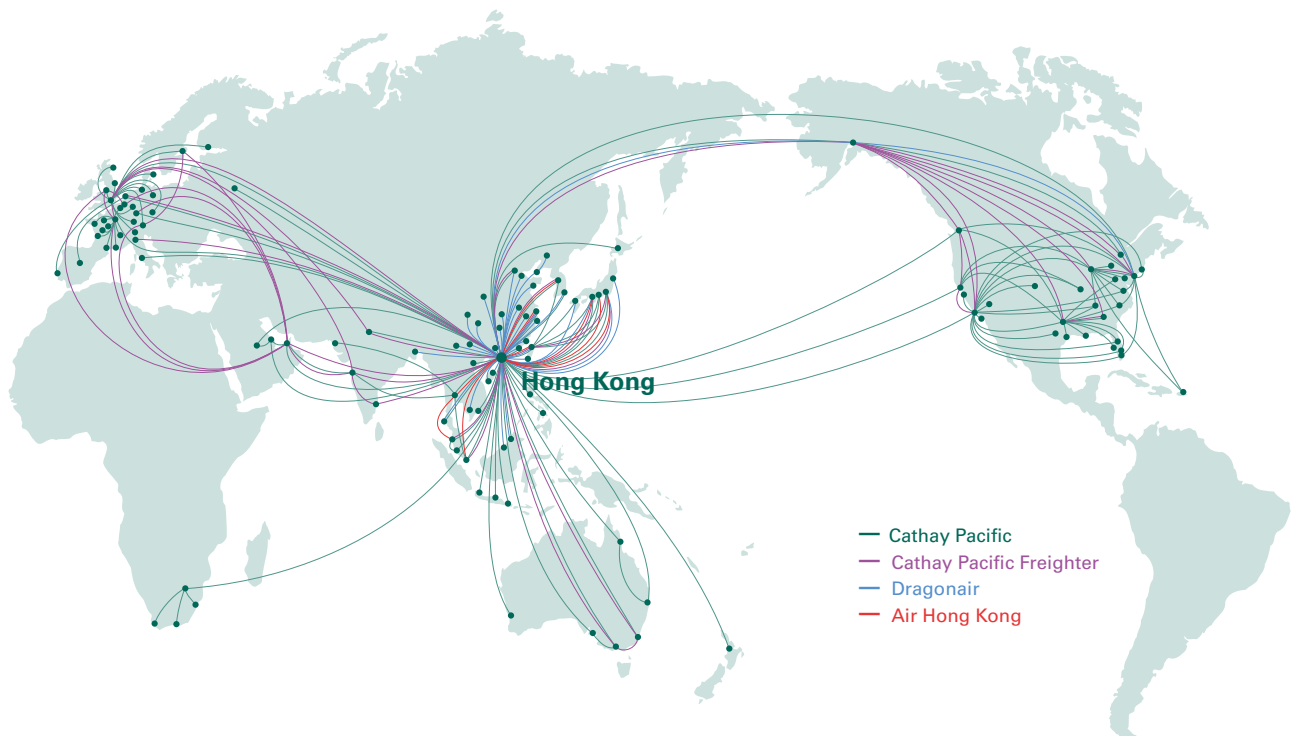


Cathay Pacific Airways Limited

2007 Interim Report





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CORPORATE INFORMATION

Cathay Pacific Airways Limited is incorporated in Hong Kong with limited liability.

INVESTOR RELATIONS

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Cathay Pacific Airways is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 104 destinations in 35 countries and territories.

The Company was founded in Hong Kong in 1946 and remains committed to its home base, making substantial investments to develop Hong Kong as one of the world's leading global transportation hubs. In addition to our fleet of 105 wide-bodied aircraft, these investments include catering, aircraft maintenance and ground handling companies together with our corporate headquarters, Cathay Pacific City, at Hong Kong International Airport.

In September 2006, Hong Kong Dragon Airlines Limited ("Dragonair") became a wholly owned subsidiary of Cathay Pacific, while Cathay Pacific and Air China Limited ("Air China") increased their cross-shareholdings to form a closer partnership. Cathay Pacific is also the major shareholder in AHK Air Hong Kong Limited ("AHK"), an all-cargo carrier offering scheduled services in the Asian region.

Cathay Pacific and its subsidiaries employ more than 18,700 people in Hong Kong. The airline is listed on The Stock Exchange of Hong Kong Limited as is Swire Pacific Limited ("Swire Pacific"), the airline's largest single shareholder.

We are a founding member of the **oneworld** global alliance whose combined network serves some 700 destinations worldwide. Dragonair will become an affiliate member of **oneworld** in late 2007.

Financial and Operating Highlights

GROUP FINANCIAL STATISTICS

		2007	2006	Change
		Six months ended 30th June		
Results				
Turnover	HK\$ million	34,631	27,086	+27.9%
Profit attributable to Cathay Pacific shareholders	HK\$ million	2,581	1,668	+54.7%
Earnings per share	HK cents	65.6	49.3	+33.1%
Dividend per share	HK cents	25.0	20.0	+25.0%
Profit margin	%	8.9	7.3	+1.6%pt
		30th June	31st December (restated)	
Balance Sheet				
Funds attributable to Cathay Pacific shareholders	HK\$ million	46,745	45,411	+2.9%
Net borrowings	HK\$ million	14,643	16,348	-10.4%
Shareholders' funds per share	HK\$	11.9	11.5	+3.5%
Net debt/equity ratio	Times	0.31	0.36	-0.05 times

OPERATING STATISTICS

		Six months ended 30th June			Change
		Cathay Pacific and Dragonair	Cathay Pacific		
		2007	2007	2006	
Available tonne kilometres ("ATK")	Million	10,975	10,026	9,126	+9.9%
Passengers carried	'000	10,960	8,474	8,144	+4.1%
Passenger load factor	%	78.1	79.6	79.1	+0.5%pt
Passenger yield	HK cents	53.7	50.8	45.8	+10.9%
Cargo carried	'000 tonnes	758	623	573	+8.7%
Cargo and mail load factor	%	65.3	66.3	67.7	-1.4%pt
Cargo and mail yield	HK\$	1.63	1.55	1.69	-8.3%
Cost per ATK	HK\$	2.30	2.17	2.19	-0.9%
Cost per ATK without fuel	HK\$	1.69	1.57	1.56	+0.6%
Aircraft utilisation	Hours per day	11.7	12.7	12.7	-
On-time performance	%	84.8	88.5	87.7	+0.8%pt

Chairman's Letter

The Cathay Pacific Group reported a record interim result with a profit attributable to shareholders of HK\$2,581 million for the first six months of 2007, compared to a profit of HK\$1,668 million for the same period last year. Earnings per share rose 33.1% to HK65.6 cents. Turnover climbed 27.9% to HK\$34,631 million.

Passenger demand continued to be strong during the first half of 2007 and this was the main driver behind the 54.7% rise in interim profit. The cargo market was generally weak throughout the period. Fuel prices recently edged back up and as a result the average into plane fuel price for the first half was US\$82.8 per barrel, down only 1.4% against the corresponding period last year. Fuel surcharges helped to offset the additional spend on fuel.

This interim result is the first six-month report to include full figures from Dragonair, which became a wholly owned subsidiary of Cathay Pacific on 28th September 2006.

Cathay Pacific carried 8.5 million passengers in the first six months, a rise of 4.1%. This compares to a 2.9% rise in capacity for the same period. The rise in earnings was mainly a result of a 10.9% rise in passenger yield to HK50.8 cents, driven largely by strong demand from first and business class passengers and the introduction of a new revenue management

system. Cathay Pacific and Dragonair combined carried 11 million passengers in the first half, with a load factor of 78.1% and a yield of HK53.7 cents.

A slow-down in demand and increased competition lowered the growth of our cargo business. Cathay Pacific's cargo load factor dropped by 1.4 percentage points to 66.3% while yield was down by 8.3% to HK\$1.55. For Cathay Pacific and Dragonair combined, total tonnage was 757,575 tonnes while load factor and yield were 65.3% and HK\$1.63.

The Cathay Pacific Group expects the current cargo downturn to be short-lived and remains confident in the future of the airfreight industry in Hong Kong. We have more freighters on order, including six new Boeing 747-400ERFs, Extended Range Freighters, commencing delivery in May 2008. Importantly, we have submitted a formal bid for the third cargo terminal at Hong Kong International Airport which we believe is crucial to Hong Kong's future competitiveness as an airfreight hub.

The second half of 2007 will be an important one for the Cathay Pacific Group. Work will continue to build on the good work that has already been done to realise the synergies presented by the Dragonair acquisition. In the first half of 2007 we strengthened a number

of services across the Dragonair network and added one new destination, Busan in South Korea. We will also continue to develop our partnership with Air China.

In terms of our inflight offering we are excited to have launched our new long haul product. The product, which we believe is one of the most innovative in the air, will be featured on 15 of our long haul aircraft by the end of 2007. Another exciting development is the arrival of our new fleet of Boeing 777-300ER, Extended Range, passenger aircraft. The first arrives in September and we will have five in the air by year-end, giving us the opportunity to enhance our long haul services. Extra flights have already been announced for destinations such as Adelaide, Melbourne, New York, Perth, San Francisco and Vancouver. The Boeing 777-300ER will become the backbone of our long haul fleet and we recently took up options for another five, to be delivered in 2011. This takes our total order to 23 aircraft.

The second half results should benefit from the additional capacity, although higher fuel prices would have a negative effect.

Cathay Pacific is the subject of anti-trust investigations by competition authorities in various jurisdictions and is cooperating fully with the relevant authorities. Given the uncertainties surrounding these issues no reliable estimate of any potential liability can be made at this time by Cathay Pacific. Accordingly the matter is disclosed as a contingent liability in note 16(e) to the accounts.

The Cathay Pacific Group remains in good health and our continued expansion highlights the confidence in our own future and that of Hong Kong. Our commitment to product and service excellence remains unchanged as does our commitment to further strengthening Hong Kong's position as a leading international passenger and airfreight hub and gateway to Mainland China.

Christopher Pratt

Chairman

Hong Kong, 8th August 2007

2007 Interim Review

The overall business picture was positive in the first six months of 2007, despite continued high fuel prices and weakened cargo demand. Cathay Pacific continued to build on its recent integration with Dragonair, bringing significant benefits for passengers through new destinations, additional flights and improved connection times. The integration of Dragonair together with our enhanced partnership with Air China confirms our commitment to further strengthen Hong Kong's position as a leading international aviation hub.

CATHAY PACIFIC

Award winning products and services

- In May, the first aircraft fitted with Cathay Pacific's innovative new long haul product entered service. For the first time we are equipping our long haul aircraft with new first, business and economy class cabins at the same time with a product that we believe will help us retain our competitive edge in key long haul markets. A total of 67 aircraft will be fitted with the new cabins, with the rollout being completed in mid-2010. 15 aircraft will be flying with the new product by the end of 2007.
- For the third consecutive year, travel retail publisher Raven Fox named Cathay Pacific as "Best Inflight Travel Retailer in Asia Pacific".
- A television commercial produced for our 60th anniversary year, "My Brother and Me", was named as one of Hong Kong's top television adverts of 2006 in the 13th Annual Most Popular TV Commercial Awards.
- *Reader's Digest* named Cathay Pacific a "Platinum Trusted Brand" in Hong Kong and a "Gold Trusted Brand" in the airline category in Asia.
- We were named "Best Transpacific Airline" at the OAG Airline of the Year Awards in London. We also received the "Best Cargo Carrier – Asia" honour from *Cargonews Asia* and an "Award for Excellence" at *Air Cargo World's* Air Cargo Excellence Awards.
- We won the "Airline Business Strategy Award for Finance", in recognition of the shareholding realignment under which Dragonair became a wholly owned subsidiary of Cathay Pacific and Cathay Pacific and Air China increased their cross shareholdings.

Hub development

- We worked to further improve connections between Cathay Pacific's global network and Dragonair's Mainland China and regional network for the benefit of passengers and the Hong Kong hub. Busan was added to the Dragonair network while additional services were added to a number of the carrier's destinations. We are now seeing more passengers connecting between the two carriers, especially to and from Mainland China.
- We have been working closely with our strategic partner Air China on a number of initiatives that will further the development of both Hong Kong and Beijing as key aviation hubs.
- We have submitted a formal bid to build and operate the third cargo terminal at Hong Kong International Airport ("HKIA"). We believe a third terminal, operated by Cathay Pacific, is vital for the future competitiveness of Hong Kong as a strategic airfreight hub.

- We increased the number of flights to Paris from daily to 10 a week to match increasing demand on one of our key European routes.
- Additional flights were operated to Cebu in April and May to meet seasonal demand, while three flights a week were added on the Vancouver route from July.
- At the end of July we announced additional services to Adelaide, Melbourne, New York, Perth and San Francisco, effective from October and November, that will provide passengers with even more travel choices.

The growing fleet

- Three more Boeing 747-400BCFs, Boeing Converted Freighters, joined our freighter fleet in the first half.
- Two new Airbus A330-300s aircraft will join the fleet in August, both fitted with our new long haul cabins.
- Preparations are well underway for the introduction of our new fleet of Boeing 777-300ER aircraft. We recently exercised purchase rights in respect of another five taking the total of firm orders to 23, which will significantly enhance our ultra long haul offering. The first arrives in September this year and we will have five in service by the end of 2007.
- We also have six Boeing 747-400ERFs on firm order with delivery commencing in May 2008.

Pioneer in technology

- Cathay Pacific has been chosen for International Air Transport Association's ("IATA") e-freight project, which started on 1st January this year. The initiative is essential in order to make our freight-carrier operation more efficient and cost effective.
- We are on schedule to meet the requirements of IATA's e-ticketing initiative that calls for airlines to offer 100% paper free ticketing by May 2008. Currently 77% of tickets issued by Cathay Pacific are e-tickets.
- A new mobile website, www.mobile.cathaypacific.com, connects users of mobile devices such as phones, pocket PCs and PDAs to a range of useful travel information.

Partnerships

- The **oneworld** alliance, of which we are a founder member, grew to 10 full members in April with the addition of Japan Airlines, Malev Hungarian Airlines and Royal Jordanian Airlines.
- At the same time, Irish carrier Aer Lingus, another founder member of **oneworld**, left the alliance.
- Dragonair will join **oneworld** as an affiliate member later in 2007 significantly enhancing the alliance's reach into Mainland China.

Environment

- In March, Cathay Pacific established itself as an environmental leader in Asia Pacific aviation by announcing plans to develop a carbon offset scheme. We will offset emissions attributable to staff duty travel backdated to 1st January 2007 and we are also in the process of developing a user-friendly mechanism for passengers who wish to opt for the offset scheme. This will be implemented in the latter half of 2007.
- We are now working to find a suitable carbon-reduction project in the Pearl River Delta area in which we can invest. This ties in with our commitment as a signatory to the Hong Kong Clean Air Charter.
- We were the official carrier for the Greener Skies Forum in Hong Kong in March, held to develop an industry-wide response to the issue of carbon emissions and climate change.
- We have developed a formal climate change position that is based on three key principles: maximising fuel efficiency and reducing fuel wastage; addressing the inefficiencies of air traffic management; and acknowledging the role of economic instruments such as emissions trading.
- In March we announced that we will be a Diamond Partner in support of the East Asian Games when the event is staged in Hong Kong in 2009.
- We continued our support for the Life Education Activity Programme ("LEAP"), which teaches young people about the dangers of drug abuse and promotes healthy lifestyles. The programme commissioned its sixth mobile classroom in March to take the message out to even more schools in Hong Kong.
- We helped to stage important events that boost Hong Kong as a tourist destination, including the International Chinese New Year Night Parade in February and the Hong Kong Rugby Sevens in March. Cathay Pacific will be back as sponsor of the Hong Kong International Races in December.
- To help celebrate the 10th anniversary of the Hong Kong Special Administrative Region ("HKSAR") we will give away 1,000 tickets in the global "100 Reasons We Love Hong Kong" campaign. We also marked the HKSAR's recent birthday by placing the anniversary logo on three of our aircraft.

Contribution to the community

- In June we published our first-ever Corporate Social Responsibility ("CSR") Report to highlight our commitment to being open, honest and transparent in meeting the concerns of our stakeholders and the wider community. The main focus of the report is on environmental concerns but it also addresses areas such as health and safety, human resources, community initiatives and procurement.

Commitment to staff

- Cathay Pacific and its subsidiaries now employ more than 25,300 people worldwide. The airline itself employs more than 11,400 staff in Hong Kong including 2,200 pilots and almost 7,000 cabin crew. The Cathay Pacific Group remains one of Hong Kong's biggest employers.

- We continued to recruit staff in the first six months, hiring 348 cabin crew and 116 pilots. Recruitment will continue throughout 2007 with plans to add a further 135 pilots and 624 cabin crew.
- We review our human resource and remuneration policies regularly in the light of local legislation, industry practice, market conditions and the performance of both the individuals and the Company.

DRAGONAIR

Award winning products and services

- Dragonair opened its centralised reservation hotline for Mainland China in May with the aim of providing a streamlined and more convenient service for passengers.
- We opened newly designed reservations and ticketing offices in Beijing, Nanjing, Sanya, Xiamen and Xian.
- The Marco Polo Club replaced The Elite as Dragonair's loyalty programme with effect from 1st January 2007, offering more choices and privileges for our most important customers.
- The quality of our inflight catering was acknowledged with a Silver award in the Food and Beverage category of the 2006 Mercury Awards, run by the International Travel Catering Association. The award was for our Chinese "Memories of Warmth and Comfort" cuisine in first class.

Hub development

- Dragonair has worked closely with Cathay Pacific to improve connections between the two carriers' networks, bringing benefits to passengers and to the Hong Kong hub.
- We added one new destination, Busan – the first Dragonair destination in South Korea – in January. The service started with three flights a week but moved to daily from 1st July.
- We have strengthened services to a number of destinations, aiming to provide at least a daily service on most routes. Kaohsiung moved from four to five flights a day, Kota Kinabalu became a daily service, flights to Fuzhou doubled to 14 a week and both Chongqing and Xian became daily services.

The growing fleet

- In February our freighter fleet grew to six with the arrival of our second Boeing 747-400BCF. One more Boeing 747-400BCF will be delivered in August 2007 with another two to be delivered in 2008.
- We now have 30 aircraft in our passenger fleet – 14 Airbus A330-300s, six Airbus A321-200s and 10 Airbus A320-200s.

Pioneer in technology

- Dragonair relaunched its website in April with a brand new design and a range of new features including online booking for flights out of Hong Kong and selected Mainland destinations and the introduction of the NotiFLY flight paging system.

- The airline also launched its own cargo website with detailed information on products and services and online tools for customers.
- *www.KAagents.com*, designed to help agents sell Dragonair more effectively, was extended to Hong Kong in January. It was launched in Mainland China late last year.

Partnerships

- Work has begun for Dragonair's entry into **oneworld** as an affiliate member later this year. As an affiliate, Dragonair will offer the alliance's full range of services and benefits and will give **oneworld** unprecedented access to new destinations within Mainland China.

Environment

- Dragonair will, by the end of 2007, align its environmental initiatives with those of Cathay Pacific and will work to meet all the environmental criteria laid down for **oneworld** new joiners.
- Dragonair will sit on Cathay Pacific's corporate social responsibility steering group and its environmental activities will be incorporated into the 2007 CSR Report.

Contribution to the community

- We continue to support the work of The Nature Conservancy in China's Yunnan province. More than HK\$5 million has been raised through inflight collections on Dragonair flights.

- Dragonair staff supported the 2007 Hong Kong Walk for Millions in January, raising funds for the Community Chest.
- We continued our support for the Hong Kong Arts Festival in 2007, sponsoring travel arrangements for a number of key performers from Mainland China.
- In June we transported priceless art treasures from Beijing for an exhibition held to mark the 10th anniversary of the establishment of the HKSAR.
- We continue to encourage the growth of an aviation culture in Hong Kong through the Dragonair Aviation Certificate Programme, run in conjunction with the Hong Kong Air Cadet Corps. The programme was launched in 2006 and is again running this summer.

Commitment to staff

- Dragonair is continuing to recruit staff in 2007, aiming to add 370 more cabin crew to increase their total number to more than 1,200. We also plan to recruit 90 pilots this year.
- We recruited our first ever Korean cabin crew following the launch of the Busan route. The 31 cabin crew were hired in South Korea and are based in Hong Kong.

AIR HONG KONG

- The all-cargo carrier now operates a fleet of eight Airbus A300-600F freighters.
- In May, AHK expanded its overnight express cargo network to Shanghai. Together with Bangkok, Nagoya, Osaka, Penang, Seoul, Singapore, Taipei and Tokyo, the carrier is now serving nine Asian cities.

FLEET PROFILE

Aircraft type	Number as at 30th June 2007			Total	Firm orders			Total	Expiry of operating leases					Purchase rights
	Owned	Finance Leased	Operating		'07	'08	'09 and beyond		'08	'09	'10	'11	'12 and beyond	
Aircraft operated by Cathay Pacific:														
A330-300	8	16	3	27	2	3 ^(a)		5				3		
A340-300	1	10	4	15								4		
A340-600			3	3					3					
747-400	18		6	24^(b)									6	
747-200F	4	3		7										
747-400F	2	4		6										
747-400BCF	5	1		6^(c)			1 ^(d)	1						
747-400ERF						3	3	6						
777-200	1	4		5										
777-300	2	10		12										
777-300ER					5 ^(e)	5 ^(e)	13	23						20 ^(f)
Total	41	48	16	105	7	11	17	35	3			7	6	20
Aircraft operated by Dragonair:														
A320	3	2	5	10						1	1	3		
A321	2		4	6							2	2		
A330	2	3	11	16^(g)					1	1	1	2	6	
747-200F	1			1										
747-300SF	3			3										
747-400BCF	2			2	1	2		3						
Total	13	5	20	38	1	2		3	1	2	4	7	6	
Aircraft operated by AHK:														
A300-600F	2	6		8										
Grand total	56	59	36	151	8	13	17	38	4	2	4	14	12	20

(a) Aircraft on 7.5 year operating leases.

(b) Two aircraft under reconfiguration and one aircraft to be converted to a 747-400BCF in 2008.

(c) One aircraft under reconfiguration.

(d) Aircraft on 9 year operating lease.

(e) Two aircraft on 10 year operating leases.

(f) Purchase rights for aircraft delivered by 2017.

(g) Two aircraft leased out to Air China.

Review of Operations

PASSENGER SERVICES

Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair:

	ASK (million)				Load factor (%)				Yield	
	2007	2006	Change	Change*	2007	2006	Change	Change*	Change	Change*
South West Pacific and South Africa	7,168	7,096	+1.0%	+1.0%	80.7	77.9	+2.8%pt	+2.8%pt	+14.4%	+14.4%
South East Asia and Middle East	9,566	8,991	+6.4%	+2.0%	76.4	74.9	+1.5%pt	+1.8%pt	+9.6%	+9.1%
Europe	9,622	9,108	+5.6%	+5.6%	81.4	83.2	-1.8%pt	-1.8%pt	+14.7%	+14.7%
North Asia	11,622	6,822	+70.4%	-0.3%	68.4	70.0	-1.6%pt	–	+10.0%	+2.9%
North America	11,858	11,797	+0.5%	+0.5%	84.9	84.9	–	–	+13.6%	+13.6%
Overall	49,836	43,814	+13.7%	+1.6%	78.1	79.1	-1.0%pt	+0.4%pt	+17.2%	+9.4%

* Includes Dragonair January to June 2006 figures for comparison.

Cathay Pacific

- We carried a total of 8.5 million passengers, an increase of 4.1% over the same period last year.
- Passenger yield rose 10.9% to HK50.8 cents, helped by strong demand from business class travellers (particularly on long haul routes), the appreciation of a number of key currencies and better inventory control.
- Demand from premium travellers continued strong, buoyed by the positive business sentiment in Hong Kong. Yields in economy class grew over the same period last year despite increasing competition.
- We added three more flights a week on the Paris and Vancouver routes and mounted extra services to Cebu and Frankfurt.
- North Asia was the weakest region in the first half. Jeju in South Korea is growing as a cross-Strait hub and taking China traffic from Hong Kong and Macau.
- The Southeast Asia market was generally buoyant, though demand was down to and from Thailand, in part due to continued political uncertainty, and yields fell in the Philippines due to increased competition.

- We suspended services to Colombo in late April for security reasons. We continue to review the situation in the hope of being able to recommence flights.
- Business to North America was strong throughout the first six months of 2007, with high loads and high yields.
- Demand on South Pacific routes remained strong and Australia will get further capacity in the second half of 2007.

Dragonair

- The average load factor for the first six months of 2007 was 64.7%. Yield improved despite increased competition on key routes.
- The number of passenger destinations served increased to 30 in January with the addition of Busan in South Korea.
- We increased services to secondary destinations in the region and in Mainland China. Extra flights were added to more than 10 routes and only four destinations now have less than a daily service.
- Demand to the key Mainland routes of Beijing and Shanghai remained strong and other Mainland China routes generally performed well.
- Demand on the Taiwan route is below capacity growth.

- Load factors fell on the Dhaka route following the implementation of visa restrictions in Hong Kong for travellers from Bangladesh. Cargo helped to keep the route viable.

- In Southeast Asia the increased capacity to Kota Kinabalu has yet to be matched by increased demand.

CARGO SERVICES

	ATK (million)				Load factor (%)				Yield	
	2007	2006	Change	Change*	2007	2006	Change	Change*	Change	Change*
Cathay Pacific and Dragonair	6,236	4,959	+25.8%	+4.6%	65.3	67.7	-2.4%pt	-3.1%pt	-3.6%	-5.8%

* Includes Dragonair January to June 2006 figures for comparison.

Cathay Pacific

- Amsterdam was added to our freighter network in February, we also increased the number of flights to other European freighter destinations and in May we added three more freighter flights a week to New York.
- As a result in the first six months of 2007 we carried 623,073 tonnes of freight – up 8.7% on the same period last year. Cargo yield was down 8.3%, due to a slow-down in demand and increased competition.
- Cargo capacity for the period increased by 15.7% while the average load factor was down 1.4 percentage points to 66.3%.
- Loads on our North American routes were high throughout the first six months though the cargo value was lower as were yields. The service to Dallas and Atlanta was increased from four flights a week to six a week from 25th July to meet the consistently high demand. It will become daily from 25th August.

- There was a significant dip in the North Asian market due to increased competition. Shippers are also moving to marine transport due to the lower cost of bunker fuel relative to jet fuel and the availability of larger and faster ships.
- Demand from Mainland China was high throughout the first half, in particular from Shanghai.
- Three new Boeing 747-400BCFs joined the Cathay Pacific fleet, arriving in January, June and July respectively. We now operate a total of six Boeing 747-400BCFs.
- Despite the current downturn we remain confident in the future of the airfreight industry in Hong Kong. To this end we have submitted a formal tender to build and operate the proposed third cargo terminal at HKIA – a facility we believe is vital to Hong Kong's continued growth as an airfreight hub.
- We also have firm orders for six new Boeing 747-400ERFs with deliveries commencing in May 2008.
- By the end of the year Cathay Pacific and Dragonair combined will operate 26 freighters – one of the biggest freighter fleets in the world.

Dragonair

- We withdrew our freighter services to Amsterdam, Dubai, Frankfurt and Manchester from 1st February. On 31st March we withdrew our three-times-weekly service to New York.
- Tonnage carried in the first six months fell by 28.5% to 134,502 tonnes.
- Capacity, measured in ATKs, fell by 50.4% against the same period in 2006. Cargo load factor fell by 18.6 percentage points.
- Demand on the Japan routes continued to be affected by a soft market.
- Our second Boeing 747-400BCF entered service in February. One more converted freighter will arrive in 2007 with two more coming in 2008.
- The freighter wet leased from China Airlines was returned at the end of March, and the wet lease with Express.Net Airlines LLC was terminated at the end of April.

Financial Review

TURNOVER

	Group		Cathay Pacific	
	Six months ended 30th June		Six months ended 30th June	
	2007 HK\$M	2006 HK\$M	2007 HK\$M	2006 HK\$M
Passenger services	20,980	15,941	18,275	15,941
Cargo services	7,377	6,314	5,882	5,656
Catering, recoveries and other services	6,274	4,831	4,936	4,196
Turnover	34,631	27,086	29,093	25,793

- Group passenger turnover increased by 31.6%, against a 13.7% increase in capacity. Cathay Pacific passenger turnover increased by 14.6%, against a 2.9% increase in capacity.
- Group cargo turnover increased by 16.8%. Cathay Pacific's cargo turnover recorded a growth of 4.0% against a 15.7% increase in capacity.
- Catering, recoveries and other services increased by 29.9%.

OPERATING EXPENSES

Net operating expenses after deduction of Group recoveries of HK\$5,558 million (2006: HK\$4,153 million) and Cathay Pacific recoveries of HK\$4,936 million (2006: HK\$4,196 million) are given below:

	Group			Cathay Pacific		
	Six months ended 30th June			Six months ended 30th June		
	2007 HK\$M	2006 HK\$M	Change	2007 HK\$M	2006 HK\$M	Change
Staff	5,781	4,709	+22.8%	4,489	4,273	+5.1%
Inflight service and passenger expenses	1,150	907	+26.8%	968	907	+6.7%
Landing, parking and route expenses	4,119	3,188	+29.2%	3,561	3,096	+15.0%
Fuel	6,772	5,896	+14.9%	6,028	5,756	+4.7%
Aircraft maintenance	3,499	2,512	+39.3%	2,787	2,470	+12.8%
Aircraft depreciation and operating leases	2,984	2,424	+23.1%	2,608	2,385	+9.4%
Other depreciation and operating leases	471	401	+17.5%	308	300	+2.7%
Commissions	414	299	+38.5%	362	299	+21.1%
Others	693	480	+44.4%	384	394	-2.5%
Net operating expenses	25,883	20,816	+24.3%	21,495	19,880	+8.1%
Net finance charges	404	177	+128.2%	241	121	+99.2%
Total net operating expenses	26,287	20,993	+25.2%	21,736	20,001	+8.7%

- Group operating expenses, which include Dragonair for the first six months of 2007, rose 25.2% to HK\$26,287 million.
- Staff cost increased with an increase in the number of staff.
- Inflight service and passenger expenses rose due to an increase in passenger numbers.
- Landing, parking and route expenses increased as a result of additional flights.

- Fuel cost increased as a result of an increase in consumption.
- Fuel hedging gains decreased by HK\$232 million to HK\$488 million which include unrealised mark to market gains of HK\$396 million (2006: HK\$590 million).
- Aircraft maintenance increased as a result of the larger operating fleet.
- Aircraft depreciation and operating leases increased due to aircraft deliveries.
- Cost per ATK increased to HK\$2.30 while the cost per ATK without fuel increased to HK\$1.69. These increases are due to the higher unit cost of Dragonair.

REVIEW OF SUBSIDIARIES AND ASSOCIATES

AHK Air Hong Kong Limited ("AHK")

- This all-cargo carrier, 60% owned by Cathay Pacific, operates express cargo services for DHL Express as its core business.
- As a result of network expansion, capacity increased by 21%. Load factor decreased by 4.1 percentage points while yield decreased slightly by 0.6%.
- AHK achieved a higher profit in the first half of 2007 over last year.

Cathay Pacific Catering Services (H.K.) Limited ("CPCS")

- CPCS reported a satisfactory interim profit with strong growth in meal volumes.
- The profit margin improved as a result of strong demand and ongoing cost controls.

- All overseas kitchens experienced growth in volumes and increased profits.

Hong Kong Airport Services Limited ("HAS")

- HAS recorded a satisfactory interim profit. Traffic volumes continued to grow steadily but yields remained under pressure.
- A number of projects have been started to ensure that the company remains successful in an increasingly competitive market.

Hong Kong International Airport Services Limited ("HIAS")

- HIAS provides airport ground handling services in Hong Kong to Dragonair and other airlines.
- To cope with further expansion in business, the company has plans to recruit 80 more staff this year.
- The company handled 16,614 flights in the first six months of 2007 and recorded a satisfactory interim profit.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific owns a 17.6% interest, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.
- The airline serves 77 domestic, one regional and 43 international destinations in the world.
- The Group's share of Air China's profit is based on accounts drawn up three months in arrears and consequently the 2007 interim results include Air China's six months' results ended 31st March 2007.
- The airline made a satisfactory profit in the period.

Hong Kong Aircraft Engineering Company Limited (“HAECO”)

- HAECO, in which Cathay Pacific owns a 27.5% interest, recorded an interim profit of HK\$548 million, a significant 38% increase over 2006.
- HAECO’s profit increased following the opening of its second hangar in Hong Kong in December 2006.
- Line maintenance at HKIA and engine overhaul by Hong Kong Aero Engine Services Limited (“HAESL”) reported satisfactory results.
- Demand for heavy maintenance work continued to be strong and the HAECO facilities are working at near capacity. To meet buoyant market demand, HAECO will upgrade the design of its third hangar in Hong Kong to cater for heavy maintenance work. The opening of this third hangar is planned for the first half of 2009.
- Taikoo (Xiamen) Aircraft Engineering Company Limited’s fifth hangar in Xiamen was opened in June 2007 and construction of the sixth hangar is on schedule, with the opening planned for mid-2009. HAESL’s engine-build workshop extension is planned to open in the second half of 2007. A new landing gear overhaul joint venture in Xiamen was formed in March 2007 and construction has started, with the operation expected to commence in mid-2008.

FINANCIAL POSITION

- Additions to fixed assets were HK\$3,096 million, comprising HK\$3,005 million for aircraft and related equipment and HK\$91 million for other equipment and buildings.
- Borrowings increased by 1.7% to HK\$32,499 million. These are fully repayable by 2018 and are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars and Euros with 39% at fixed rates of interest net of derivatives.
- Liquid funds, 70% of which are denominated in US dollars, increased by 14.5% to HK\$17,882 million.
- Net borrowings decreased by 10.4% to HK\$14,643 million.
- Funds attributable to Cathay Pacific shareholders increased by 2.9% to HK\$46,745 million while the net debt/equity ratio decreased to 0.31 times.
- The Group’s policy on financial risk management and the management of currency, interest rate and fuel price exposures is set out in the 2006 Annual Report.

Review Report

REVIEW REPORT TO THE BOARD OF DIRECTORS OF CATHAY PACIFIC AIRWAYS LIMITED

INTRODUCTION

We have reviewed the interim financial report set out on pages 18 to 30 which comprises the consolidated balance sheet of Cathay Pacific Airways Limited as of 30th June 2007 and the related consolidated profit and loss account, and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

8th August 2007

Condensed Financial Statements

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30th June 2007 – Unaudited

	Note	2007 HK\$M	2006 HK\$M	2007 US\$M	2006 US\$M
Turnover					
Passenger services		20,980	15,941	2,690	2,044
Cargo services		7,377	6,314	946	810
Catering, recoveries and other services		6,274	4,831	804	619
Total turnover	2	34,631	27,086	4,440	3,473
Expenses					
Staff		(5,781)	(4,709)	(741)	(604)
Inflight service and passenger expenses		(1,373)	(1,067)	(176)	(137)
Landing, parking and route expenses		(4,775)	(3,674)	(612)	(471)
Fuel		(10,553)	(8,681)	(1,353)	(1,113)
Aircraft maintenance		(3,499)	(2,512)	(449)	(322)
Aircraft depreciation and operating leases		(3,180)	(2,424)	(408)	(311)
Other depreciation and operating leases		(471)	(401)	(60)	(51)
Commissions		(414)	(299)	(53)	(38)
Others		(1,395)	(1,202)	(179)	(154)
Operating expenses		(31,441)	(24,969)	(4,031)	(3,201)
Operating profit	3	3,190	2,117	409	272
Finance charges		(1,094)	(797)	(140)	(102)
Finance income		690	620	88	79
Net finance charges	4	(404)	(177)	(52)	(23)
Share of profits of associates		265	130	34	17
Profit before tax		3,051	2,070	391	266
Taxation	5	(389)	(316)	(50)	(41)
Profit for the period		2,662	1,754	341	225
Profit attributable to					
Cathay Pacific shareholders		2,581	1,668	331	214
Minority interests		81	86	10	11
		2,662	1,754	341	225
Dividends					
Interim declared	6	985	786	126	101
Earnings per share					
Basic	7	65.6¢	49.3¢	8.4¢	6.3¢
Diluted	7	65.5¢	49.2¢	8.4¢	6.3¢
Dividend per share	6	25.0¢	20.0¢	3.2¢	2.6¢

The accounts are prepared and presented in HK\$, the functional currency. The US\$ figures are shown only as supplementary information and are translated at HK\$7.8.

The notes on pages 23 to 30 form part of these accounts.

Condensed Financial Statements

CONSOLIDATED BALANCE SHEET

at 30th June 2007 – Unaudited

	Note	30th June 2007 HK\$M	31st December 2006 (restated) HK\$M	30th June 2007 US\$M	31st December 2006 (restated) US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	8	58,573	58,009	7,509	7,437
Intangible assets	9	7,502	7,486	962	960
Investments in associates	10	8,997	8,826	1,154	1,131
Other long-term receivables and investments		3,439	3,406	441	437
		78,511	77,727	10,066	9,965
Long-term liabilities		(36,265)	(33,956)	(4,650)	(4,353)
Related pledged security deposits		7,703	8,164	988	1,047
Net long-term liabilities	11	(28,562)	(25,792)	(3,662)	(3,306)
Retirement benefit obligations		(204)	(170)	(26)	(22)
Deferred taxation		(6,698)	(6,600)	(859)	(846)
		(35,464)	(32,562)	(4,547)	(4,174)
Net non-current assets		43,047	45,165	5,519	5,791
Current assets and liabilities					
Stock		855	762	109	98
Trade and other receivables	12	9,490	8,735	1,217	1,120
Liquid funds		17,882	15,624	2,293	2,003
		28,227	25,121	3,619	3,221
Current portion of long-term liabilities		(4,959)	(7,503)	(636)	(962)
Related pledged security deposits		1,022	1,352	131	173
Net current portion of long-term liabilities	11	(3,937)	(6,151)	(505)	(789)
Trade and other payables	13	(12,216)	(10,999)	(1,566)	(1,410)
Unearned transportation revenue		(5,255)	(4,671)	(674)	(599)
Taxation		(2,996)	(2,902)	(384)	(372)
		(24,404)	(24,723)	(3,129)	(3,170)
Net current assets		3,823	398	490	51
Net assets		46,870	45,563	6,009	5,842
CAPITAL AND RESERVES					
Share capital	14	788	787	101	101
Reserves		45,957	44,624	5,892	5,721
Funds attributable to Cathay Pacific shareholders		46,745	45,411	5,993	5,822
Minority interests		125	152	16	20
Total equity		46,870	45,563	6,009	5,842

The accounts are prepared and presented in HK\$, the functional currency. The US\$ figures are shown only as supplementary information and are translated at HK\$7.8.

The notes on pages 23 to 30 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT*for the six months ended 30th June 2007 – Unaudited*

	2007 HK\$M	2006 HK\$M	2007 US\$M	2006 US\$M
Operating activities				
Cash generated from operations	6,899	4,761	885	610
Dividends received from associates	223	78	29	10
Interest received	140	100	18	13
Net interest paid	(735)	(446)	(94)	(57)
Tax paid	(268)	(345)	(35)	(44)
Net cash inflow from operating activities	6,259	4,148	803	532
Investing activities				
Sales of fixed assets	9	5	1	1
Net decrease in other long-term receivables and investments	2	39	–	5
Receipts from repayment of loan and capital reduction from associates	–	2	–	–
Payments for fixed and intangible assets	(3,119)	(1,644)	(399)	(211)
Net increase in liquid funds other than cash and cash equivalents	(1,577)	(503)	(202)	(65)
Payments to acquire additional shareholding in an associate	(184)	–	(24)	–
Net cash outflow from investing activities	(4,869)	(2,101)	(624)	(270)
Financing activities				
New financing	2,234	929	286	119
Shares issued	23	17	3	2
Loan and finance lease repayments	(1,977)	(2,489)	(253)	(319)
Dividends paid – to shareholders	(1,260)	(947)	(162)	(121)
– to minority interests	(108)	(15)	(14)	(2)
Net cash outflow from financing activities	(1,088)	(2,505)	(140)	(321)
Increase/(decrease) in cash and cash equivalents	302	(458)	39	(59)
Cash and cash equivalents at 1st January	5,767	4,267	739	547
Effect of exchange differences	69	37	9	5
Cash and cash equivalents at 30th June	6,138	3,846	787	493

The accounts are prepared and presented in HK\$, the functional currency. The US\$ figures are shown only as supplementary information and are translated at HK\$7.8.

The notes on pages 23 to 30 form part of these accounts.

Condensed Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2007 – Unaudited

	Attributable to Cathay Pacific shareholders							Minority interests HK\$M	Total equity HK\$M
	Non-distributable						Total HK\$M		
	Share capital HK\$M	Retained profit HK\$M	Share premium HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Capital redemption reserve and others HK\$M			
At 31st December 2006	787	28,200	16,241	906	(642)	62	45,554	152	45,706
Adjustments to fair values of assets and liabilities acquired in prior period	–	(128)	–	–	–	(15)	(143)	–	(143)
At 31st December 2006 (restated)	787	28,072	16,241	906	(642)	47	45,411	152	45,563
Changes in cash flow hedges									
– recognised during the period	–	–	–	–	(143)	–	(143)	–	(143)
– deferred tax recognised	–	–	–	–	(1)	–	(1)	–	(1)
– transferred to profit for the period	–	–	–	–	123	–	123	–	123
Revaluation surplus recognised during the period	–	–	–	59	–	–	59	–	59
Share of reserves of associates (note 15)	–	–	–	–	–	(280)	(280)	–	(280)
Exchange differences	–	–	–	–	–	232	232	–	232
Net gain/(loss) recognised directly in equity	–	–	–	59	(21)	(48)	(10)	–	(10)
Profit for the period	–	2,581	–	–	–	–	2,581	81	2,662
Total recognised profit/(loss) for the period	–	2,581	–	59	(21)	(48)	2,571	81	2,652
2006 final dividend	–	(1,260)	–	–	–	–	(1,260)	–	(1,260)
Dividends paid to minority interests	–	–	–	–	–	–	–	(108)	(108)
Share options exercised	1	–	22	–	–	–	23	–	23
Total transactions with shareholders	1	(1,260)	22	–	–	–	(1,237)	(108)	(1,345)
At 30th June 2007	788	29,393	16,263	965	(663)	(1)	46,745	125	46,870

The notes on pages 23 to 30 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*for the six months ended 30th June 2006 – Unaudited*

	Attributable to Cathay Pacific shareholders							Minority interests	Total equity	
	Non-distributable							Total HK\$M	HK\$M	HK\$M
	Share capital HK\$M	Retained profit HK\$M	Share premium HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Capital redemption reserve and others HK\$M				
At 31st December 2005	676	26,492	7,531	228	30	11	34,968	283	35,251	
Changes in cash flow hedges										
– recognised during the period	–	–	–	–	(205)	–	(205)	–	(205)	
– deferred tax recognised	–	–	–	–	25	–	25	–	25	
– transferred to profit for the period	–	–	–	–	(29)	–	(29)	–	(29)	
Revaluation surplus recognised during the period	–	–	–	839	–	–	839	–	839	
Exchange differences	–	–	–	–	–	7	7	–	7	
Net gain/(loss) recognised directly in equity	–	–	–	839	(209)	7	637	–	637	
Profit for the period	–	1,668	–	–	–	–	1,668	86	1,754	
Total recognised profit/(loss) for the period	–	1,668	–	839	(209)	7	2,305	86	2,391	
2005 final dividend	–	(947)	–	–	–	–	(947)	–	(947)	
Dividends paid to minority interests	–	–	–	–	–	–	–	(15)	(15)	
Share options exercised	1	–	16	–	–	–	17	–	17	
Total transactions with shareholders	1	(947)	16	–	–	–	(930)	(15)	(945)	
At 30th June 2006	677	27,213	7,547	1,067	(179)	18	36,343	354	36,697	

The notes on pages 23 to 30 form part of these accounts.

Notes to the Accounts

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim report has been prepared on a basis consistent with the principal accounting policies adopted in the 2006 Annual Report.

The interim report has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" and the disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year ended 31st December 2006, the Group increased its shareholding from 17.8% to 100% in Dragonair. In accordance with Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations", the Group has made certain adjustments to the fair values of assets and liabilities acquired as if these adjustments had been recognised from the acquisition date. The effect of the adjustments to the provisional fair value of assets and liabilities are as follows:

	HK\$M
Decrease in reserves	3
Increase in goodwill	13
Decrease in stock	38
Decrease in fixed assets	77
Decrease in trade and other payables	99

During the year ended 31st December 2006, the Group increased its shareholding from 10% to 17.3% in Air China which became an associate. In accordance with HKFRS 3 "Business Combinations", the Group has made certain adjustments to the fair value of the investment acquired as if these adjustments had been recognised from the subscription date. Accordingly, reserves and investment in associates for the year ended 31st December 2006 decreased by HK\$140 million.

2. TURNOVER

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

(a) Primary reporting by geographical segment

	Six months ended 30th June	
	2007 HK\$M	2006 HK\$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	14,971	10,606
– Japan, Korea and Taiwan	5,277	4,301
South West Pacific and South Africa	2,272	1,918
South East Asia and Middle East	3,602	3,228
Europe	3,990	3,094
North America	4,519	3,939
	34,631	27,086

Countries included in each region are defined in the 2006 Annual Report. Geographical analysis of segment results, segment assets and segment liabilities is not disclosed for the reasons set out in the 2006 Annual Report.

2. TURNOVER (continued)

(b) Secondary reporting by business segment

	Six months ended 30th June	
	2007 HK\$M	2006 HK\$M
Revenue – external sales		
– Passenger services	20,980	15,941
– Cargo services	7,377	6,314
	28,357	22,255
Unallocated revenue		
– Catering, recoveries and other services	6,274	4,831
	34,631	27,086

The Group is engaged in two main business segments: in passenger business and in freight traffic through the Company and two subsidiaries, Dragonair and AHK. Catering services, recoveries and other airline supporting services which supplement the Group's main operating business are included in unallocated revenue.

Analysis of net assets by business segment is not disclosed for the reasons set out in the 2006 Annual Report.

3. OPERATING PROFIT

	Six months ended 30th June	
	2007 HK\$M	2006 HK\$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	893	866
– Owned	1,521	1,133
Amortisation of intangible assets	7	19
Operating lease rentals		
– Land and buildings	260	200
– Aircraft and related equipment	956	589
– Others	14	18
Operating lease income		
– Aircraft and related equipment	(196)	–
Cost of stock expensed	818	760
Exchange differences	(176)	8
Auditors' remuneration	4	3
Income from listed investments	–	(25)
Income from unlisted investments	(56)	(51)

4. NET FINANCE CHARGES

	Six months ended 30th June	
	2007 HK\$M	2006 HK\$M
Net interest charges comprise:		
– Obligations under finance leases	732	685
– Interest income on related security deposits, notes and bonds	(267)	(313)
	465	372
– Bank loans and overdrafts	301	90
– Other loans wholly repayable within five years	61	22
	827	484
Income from liquid funds:		
– Funds with investment managers and other liquid investments	(265)	(198)
– Bank deposits and other receivables	(140)	(101)
	(405)	(299)
Financial derivatives:		
– Interest income	(18)	(8)
	404	177

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

5. TAXATION

	Six months ended 30th June	
	2007 HK\$M	2006 HK\$M
Current tax expenses		
– Hong Kong profits tax	26	24
– Overseas tax	228	160
– Under provision for prior years	22	42
Deferred tax		
– Origination and reversal of temporary differences	113	90
	389	316

Hong Kong profits tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

6. DIVIDENDS

On 8th August 2007, the Board of Directors declared an interim dividend of HK¢25 per share (2006: HK¢20 per share) for the period ended 30th June 2007. This interim dividend which totals HK\$985 million (2006: HK\$786 million) will be paid on 2nd October 2007 to shareholders registered at the close of business on 7th September 2007. The share register will be closed from 3rd September 2007 to 7th September 2007, both dates inclusive.

7. EARNINGS PER SHARE

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to Cathay Pacific shareholders of HK\$2,581 million (2006: HK\$1,668 million) by the daily weighted average number of shares in issue throughout the period of 3,937 million (2006: 3,382 million) shares and 3,942 million (2006: 3,389 million) shares respectively with the latter adjusted for the effects of the share options.

	2007 million	2006 million
Weighted average number of ordinary shares used in calculating basic earnings per share	3,937	3,382
Deemed issue of ordinary shares for no consideration	5	7
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,942	3,389

8. FIXED ASSETS

	Aircraft and related equipment HK\$M	Other equipment HK\$M	Buildings HK\$M	Total HK\$M
Cost				
At 1st January 2007	89,984	3,234	5,202	98,420
Adjustment to fair value of assets acquired in prior period	(77)	–	–	(77)
At 1st January 2007 (restated)	89,907	3,234	5,202	98,343
Exchange differences	1	5	8	14
Additions	3,005	90	1	3,096
Disposals	(241)	(50)	(16)	(307)
At 30th June 2007	92,672	3,279	5,195	101,146
Accumulated depreciation				
At 1st January 2007	36,425	2,041	1,868	40,334
Exchange differences	–	4	4	8
Charge for the period	2,224	103	87	2,414
Disposals	(125)	(48)	(10)	(183)
At 30th June 2007	38,524	2,100	1,949	42,573
Net book value				
At 30th June 2007	54,148	1,179	3,246	58,573
At 31st December 2006 (restated)	53,482	1,193	3,334	58,009

Fixed assets at 30th June 2007 include leased assets of HK\$27,381 million (31st December 2006: HK\$28,463 million).

9. INTANGIBLE ASSETS

	Goodwill HK\$M	Computer HK\$M	Total HK\$M
Cost			
At 1st January 2007	7,390	636	8,026
Adjustment to goodwill arising from the acquisition of Dragonair At 1st January 2007 (restated)	13	–	13
Additions	–	23	23
At 30th June 2007	7,403	659	8,062
Accumulated amortisation			
At 1st January 2007	–	553	553
Charge for the period	–	7	7
At 30th June 2007	–	560	560
Net book value			
At 30th June 2007	7,403	99	7,502
At 31st December 2006 (restated)	7,403	83	7,486

10. INVESTMENT IN ASSOCIATES

	30th June 2007 HK\$M	31st December 2006 (restated) HK\$M
Share of net assets		
– listed in Hong Kong	6,406	6,389
– unlisted	337	349
Goodwill	2,254	2,088
	8,997	8,826

11. LONG-TERM LIABILITIES

	30th June 2007		31st December 2006	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Long-term loans	1,637	14,150	3,603	10,856
Obligations under finance leases	2,300	14,412	2,548	14,936
	3,937	28,562	6,151	25,792

12. TRADE AND OTHER RECEIVABLES

	30th June 2007 HK\$M	31st December 2006 HK\$M
Trade debtors	4,941	4,701
Derivative financial assets	1,356	720
Other receivables and prepayments	3,085	3,213
Due from associates	108	101
	9,490	8,735

	30th June 2007 HK\$M	31st December 2006 HK\$M
Analysis of trade debtors by age:		
Current	4,830	4,445
One to three months overdue	80	241
More than three months overdue	31	15
	4,941	4,701

The Group normally grants a credit term of 30 days to customers or follows the local industry standard with the debt in certain circumstances being partially protected by bank guarantees or other monetary collateral.

13. TRADE AND OTHER PAYABLES

	30th June 2007 HK\$M	31st December 2006 (restated) HK\$M
Trade creditors	4,747	4,518
Derivative financial liabilities	923	756
Other payables	6,229	5,426
Due to associates	202	160
Due to other related companies	89	110
Bank overdrafts – unsecured	26	29
	12,216	10,999

	30th June 2007 HK\$M	31st December 2006 (restated) HK\$M
Analysis of trade creditors by age:		
Current	3,360	3,129
One to three months overdue	779	939
More than three months overdue	608	450
	4,747	4,518

14. SHARE CAPITAL

During the period under review, the Group did not purchase, sell or redeem any shares in the Company. At 30th June 2007, 3,938,753,572 shares were in issue (31st December 2006: 3,935,697,572 shares).

The Company adopted a share option scheme (the "Scheme") on 10th March 1999 for the purpose of providing flight deck crew with an incentive to contribute towards the Company's results. All participants of the Scheme were flight deck crew who paid HK\$1 each on acceptance of their share options and were granted options to subscribe for shares of the Company at a price not less than the higher of 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant, and the nominal value of the shares. The Scheme had been closed and no share options were available for issue under the Scheme during the period under review. The entitlement of each participant has not exceeded 0.32% of the maximum aggregate number of shares in respect of which options have been granted under the Scheme.

Options to subscribe for a total of 68,327,000 shares at the exercise price of HK\$7.47 per share were granted under the Scheme on the date of grant 15th March 1999. Other than in limited circumstances, the options in relation to 50% of the shares became exercisable on 15th March 2002, and the balance on 15th March 2004. The options will, except in limited circumstances, be exercisable until 14th March 2009.

HKFRS 2 "Share-based Payment" does not apply to this Scheme as share options were granted before 7th November 2002.

Upon exercise of share options, equity is increased by the number of options exercised. The options were exercised at HK\$7.47 per share.

	2007 Number of shares	2006 Number of shares
Movements in options outstanding comprise:		
At 1st January	9,058,000	16,077,500
Options exercised	(3,056,000)	(2,222,000)
At 30th June	6,002,000	13,855,500
Options vested at 30th June	6,002,000	13,855,500

No option was granted under the Scheme during the period.

	2007	2006
Details of share options exercised during the period:		
Exercise date	5/1/07-15/6/07	10/1/06-30/6/06
Proceeds received (HK\$)	22,828,320	16,598,340
Weighted average closing share price immediately before the exercise date (HK\$)	20.44	13.85

15. CHANGES IN EQUITY

The share of reserves of associates relates to the purchase of the minority shares in China National Aviation Company Limited ("CNAC") by Air China.

16. COMMITMENTS AND CONTINGENCIES

- (a) Outstanding commitments for capital expenditure authorised at the end of the period but not provided for in the accounts:

	30th June 2007 HK\$M	31st December 2006 HK\$M
Authorised and contracted for	22,067	23,422
Authorised but not contracted for	6,871	1,646
	28,938	25,068

- (b) Guarantees in respect of bank loans and other liabilities outstanding at the end of the period:

	30th June 2007 HK\$M	31st December 2006 HK\$M
Associate	17	17
Staff	200	200
	217	217

- (c) The Company has under certain circumstances undertaken to maintain specified rates of return within the Group's leasing arrangements. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.
- (d) The Company operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected outcome of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.
- (e) The Company is the subject of investigations in respect of its air cargo operations by the competition authorities of various jurisdictions including the United States, the European Union, Canada, Switzerland and New Zealand. The Company has been cooperating with the authorities in their investigations. The investigations are focussed on issues relating to pricing and competition. The Company is represented by legal counsel in connection with the investigations.

The Company has been named as a defendant in a number of civil class action complaints in the United States, Canada and Australia. The Company is represented by legal counsel in the actions filed in the United States, Canada and Australia and intends to defend each of those actions.

The investigations and civil actions are ongoing and the outcomes are subject to uncertainties. The Company is not in a position at the present time to assess any potential liabilities and cannot therefore make any provisions.

17. FINANCIAL RISK MANAGEMENT

Exposure to fluctuations in foreign exchange rates, interest rates and fuel prices are reviewed regularly and positions amended to comply with policies and guidelines.

Information Provided in Accordance with the Listing Rules

CORPORATE GOVERNANCE

The Company has complied with all the code provisions and has met most of the recommended best practices set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules on the Stock Exchange throughout the accounting period covered by the interim report.

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 of the Listing Rules.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim 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.

DIRECTORS' INTERESTS

At 30th June 2007, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited:

	No. of shares	Percentage of issued capital
Philip Chen	9,000	0.00023
Tony Tyler	5,000	0.00013

Other than as stated above, no Director or chief executive of Cathay Pacific Airways Limited had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares (including options) and debentures of Cathay Pacific Airways Limited or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2007 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	No. of shares	Percentage of issued capital	Type of interest (Note)
1. Air China Limited	2,948,122,554	74.85	Attributable interest ^(a)
2. China National Aviation Holding Company	2,948,122,554	74.85	Attributable interest ^(b)
3. CITIC Pacific Limited	2,948,122,554	74.85	Attributable interest ^(a)
4. Swire Pacific Limited	2,948,122,554	74.85	Attributable interest ^(a)
5. John Swire & Sons Limited	2,948,122,554	74.85	Attributable interest ^(c)

Note: At 30th June 2007:

- (a) Under Section 317 of the SFO, each of Air China, CNAC, CITIC Pacific Limited ("CITIC Pacific") and Swire Pacific, being a party to the Shareholders' Agreement in relation to the Company dated 8th June 2006, is deemed to be interested in a total of 2,948,122,554 shares of the Company, comprising:
 - (i) 1,572,332,028 shares directly held by Swire Pacific;
 - (ii) 687,895,263 shares indirectly held by CITIC Pacific and its wholly owned subsidiary Super Supreme Company Limited, comprising the following shares held by their wholly owned subsidiaries: 286,451,154 shares held by Custain Limited, 189,976,645 shares held by Grand Link Investments Holdings Ltd., 21,809,399 shares held by Perfect Match Assets Holdings Ltd., and 189,658,065 shares held by Smooth Tone Investments Ltd.; and
 - (iii) 687,895,263 shares indirectly held by Air China and their subsidiaries CNAC and Total Transform Group Limited, comprising the following shares held by their wholly owned subsidiaries: 288,596,335 shares held by Angel Paradise Ltd., 191,922,273 shares held by Easerich Investments Inc. and 207,376,655 shares held by Motive Link Holdings Inc.
- (b) China National Aviation Holding Company is deemed to be interested in a total of 2,948,122,554 shares of the Company, in which its subsidiary Air China is deemed interested.
- (c) John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in a total of 2,948,122,554 shares of the Company by virtue of the Swire group's direct or indirect interest in shares of Swire Pacific representing approximately 34.32% of the issued capital and approximately 54.86% of the voting rights.



Product group from well-managed forests, controlled sources and recycled wood or fiber
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