CATHAY PACIFIC

Cathay Pacific Airways Limited

2011 Interim Report

Stock Code: 00293

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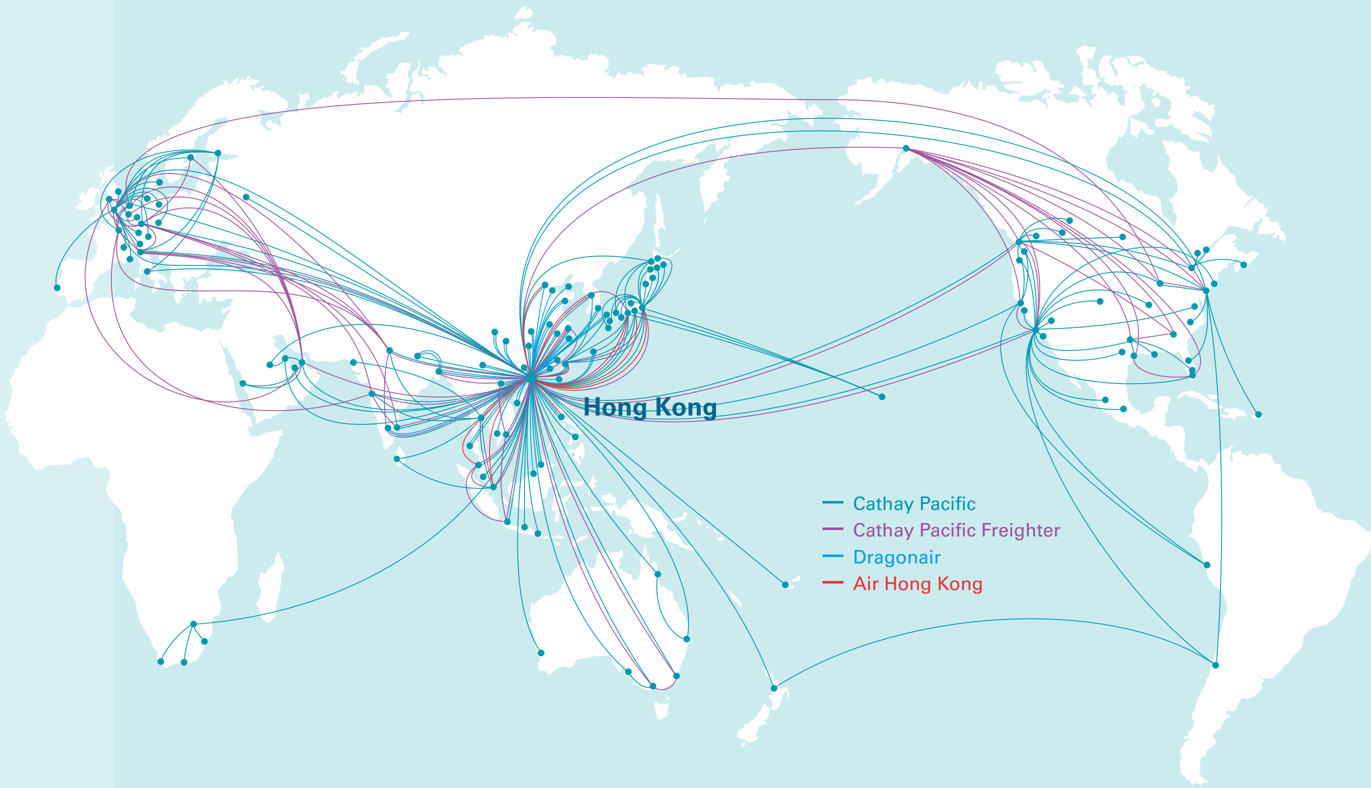

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CORPORATE INFORMATION

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

INVESTOR RELATIONS

For further information about Cathay Pacific, please contact:

Corporate Communication Department
Cathay Pacific Airways Limited
7th Floor, North Tower
Cathay Pacific City
Hong Kong International Airport
Hong Kong

Tel: (852) 2747 5210
Fax: (852) 2810 6563

Cathay Pacific's main Internet address is *www.cathaypacific.com*

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 145 destinations in 40 countries and territories around the world.

The Company was founded in Hong Kong in 1946 and remains deeply committed to its home base, making substantial investments to develop Hong Kong as one of the world's leading international aviation hubs. In addition to its current fleet of 128 wide-bodied aircraft, these investments include catering and ground-handling companies and the corporate headquarters at Hong Kong International Airport. Cathay Pacific continues to invest heavily in its home city and has another 97 new aircraft due for delivery up to 2019. The airline is also building its own state-of-the-art cargo terminal in Hong Kong, scheduled to begin operations in early 2013.

Hong Kong Dragon Airlines Limited ("Dragonair"), a regional airline registered and based in Hong Kong which operates 32 aircraft on scheduled services to 33 destinations in Mainland China and elsewhere in Asia, is a wholly owned subsidiary of Cathay Pacific. Cathay Pacific is the major shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in the Asian region and owns 19.0% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China.

Cathay Pacific and its subsidiaries employ some 28,100 people worldwide (more than 21,000 of them in Hong Kong). Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **one**world global alliance, whose combined network serves more than 750 destinations worldwide. Dragonair is an affiliate member of **one**world.

Financial and Operating Highlights

GROUP FINANCIAL STATISTICS

		2011	2010	
		Six months ended 30th June		Change
Results				
Turnover	*HK$ million*	**46,791**	41,337	**+13.2%**
Profit attributable to owners of Cathay Pacific	*HK$ million*	**2,808**	6,840	**-58.9%**
Earnings per share	*HK cents*	**71.4**	173.9	**-58.9%**
Dividend per share	*HK cents*	**18**	33	**-45.5%**
Profit margin	*%*	**6.0**	16.5	**-10.5%pt**
		30th June	31st December	
Financial position				
Funds attributable to owners of Cathay Pacific	*HK$ million*	**54,899**	54,274	**+1.2%**
Net borrowings	*HK$ million*	**20,598**	15,435	**+33.4%**
Shareholders' funds per share	*HK$*	**14.0**	13.8	**+1.4%**
Net debt/equity ratio	*Times*	**0.38**	0.28	**+0.10 times**

OPERATING STATISTICS – CATHAY PACIFIC AND DRAGONAIR

		2011	2010	
		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	*Million*	**12,846**	11,436	**+12.3%**
Passengers carried	*'000*	**13,176**	12,954	**+1.7%**
Passenger load factor	*%*	**79.3**	84.0	**-4.7%pt**
Passenger yield	*HK cents*	**65.3**	58.4	**+11.8%**
Cargo and mail carried	*'000 tonnes*	**836**	872	**-4.1%**
Cargo and mail load factor	*%*	**68.4**	78.0	**-9.6%pt**
Cargo and mail yield	*HK$*	**2.42**	2.26	**+7.1%**
Cost per ATK	*HK$*	**3.35**	3.14	**+6.7%**
Cost per ATK without fuel	*HK$*	**1.94**	2.01	**-3.5%**
Aircraft utilisation	*Hours per day*	**12.3**	11.8	**+4.2%**
On-time performance	*%*	**83.1**	82.5	**+0.6%pt**

Chairman's Letter

The Cathay Pacific Group reported a profit of HK$2,808 million for the first six months of 2011. This compares to a profit HK$6,840 million in the first half of 2010. Earnings per share fell by 58.9% to HK71.4 cents. Turnover for the period rose by 13.2% to HK$46,791 million.

In the first half of 2011, the core business of the Cathay Pacific Group remained generally robust following the very strong performance of 2010. The passenger businesses of both Cathay Pacific and Dragonair performed well, with strong demand for premium class travel despite economic uncertainty in some of the world's major economies. The cargo business performed reasonably in the first quarter of the year but was appreciably weaker in the second quarter. The relative strength of some of our key operating currencies made a positive contribution to our revenues during this period.

Increased jet fuel prices had a significant effect on our operating results in the first half of 2011. Fuel is our biggest single cost. During the period the Group's fuel costs (disregarding the effect of fuel hedging) rose by 49.5% compared to the same period in 2010, an increase of HK$6,461 million. The increase reflects higher fuel prices and flying more. Managing the risk associated with high and volatile fuel prices is a key challenge for the Company. We have a robust fuel hedging programme. In the first half of 2011 our hedging activities resulted in a realised profit of HK$962 million with additional unrealised mark-to-market gains of HK$1,197 million being recognised in reserves.

Our passenger business performed generally as we expected during the half year. Passenger revenue for the period was HK$31,774 million, representing an increase of 15.9% compared with the same period in 2010. Capacity increased by 9.8%. We carried a total of 13.2 million passengers, a rise of 1.7% compared to the same period of 2010. The load factor fell by 4.7 percentage points. Yield increased by 11.8% to HK65.3 cents. Load factors in economy class remained high, particularly on the North American and Southeast Asian routes. Demand for premium class travel remained strong and yields continued to increase. However, the earthquake and tsunami in Japan in March resulted in a significant reduction in demand in one of our most important markets. By June we were seeing some recovery on the Japan routes, though volumes remain well below those achieved before the earthquake and tsunami.

The Cathay Pacific and Dragonair cargo business performed reasonably in the first quarter of 2011. However, demand for shipments from our two most important markets, Hong Kong and Mainland China, started to weaken significantly in April. This weakness persisted during the whole of the second quarter. Its effect was offset to some extent by an increase in shipments of cargo to Hong Kong, reflecting increased consumer demand in Mainland China. Our cargo revenue for the first half of 2011 was up by 7.7% to HK$11,628 million compared with the same period in 2010. Yield was up by 7.1% to HK$2.42. Capacity was up 14.6%. The load factor fell by 9.6 percentage points to 68.4%.

We took delivery of six new aircraft in the first half of 2011 and we have a further eight deliveries scheduled in the second half of the year. In March we announced our intention to acquire another 27 new aircraft – two Airbus A350-900s, 15 Airbus A330-300s and 10 Boeing 777-300ERs. In August, Cathay Pacific announced a further acquisition of four Boeing 777-300ERs and eight Boeing 777-200F freighters. Our fleet development plans are intended to result in our operating one of the youngest, most fuel-efficient wide-body passenger fleets in the world by 2019. The second of four Boeing 747-400BCF freighters was sold to our cargo joint venture with Air China in July. The remaining two will be sold in early 2012. Cathay Pacific is dry-leasing another two aircraft of this type to Air Hong Kong. The delivery of the airline's new Boeing 747-8F freighters has been further delayed. Two are now scheduled to be delivered in September 2011, with three more arriving before the end of the year. However, the latest delivery schedule is still subject to final confirmation.

We are continuing our efforts to provide a better proposition for our customers, by strengthening our network and by improving our products on the ground and in the air. Cathay Pacific started flying to Abu Dhabi in June and will start flying to Chicago in September. Frequencies have been increased on Cathay Pacific's Milan, Paris, New York and Toronto routes and on a number of its Southeast Asian routes. Dragonair increased frequencies on its routes to cities in Mainland China. In March Cathay Pacific introduced its new business class product. It has been very well received by passengers. To date it has been installed on seven aircraft. Following our opening of The Cabin in October 2010, we are improving The Wing, our signature lounge at Hong Kong International Airport and are looking at other ways to improve what we offer to customers.

In May we launched our cargo joint venture with Air China, in which we hold an equity and an economic interest. The joint venture operates from Shanghai under the Air China Cargo name. Shipments of air cargo between the Yangtze River Delta region and major markets round the world are large and growing. We are confident that the venture will succeed in capitalising on the opportunity afforded by this growing market. Work continues on our new cargo terminal at Hong Kong International Airport. When it opens in 2013, it will greatly enhance the competitiveness and efficiency of Hong Kong as an airfreight hub.

We are deeply committed to Hong Kong as our home base. Hong Kong International Airport will soon face serious capacity restraints. An urgent and necessary debate has begun on how to address this issue. The Airport Authority of Hong Kong is asking the public to consider two options; to increase the capacity of the current two runways or to build a third runway. We are putting our full support behind the latter option. We believe that a third runway is of critical importance to the sustainability of the Hong Kong economy and to maintaining Hong Kong's position as Asia's premier aviation hub. Recognising environmental concerns relating to the third runway project, Cathay Pacific is playing an active role in the industry effort to reduce emissions and noise.

After an exceptionally strong 2010, in which we made record profits, 2011 is proving to be more challenging. High fuel prices are increasing costs and recovering them through higher tariffs may affect demand. The outlook for the world economy is uncertain and a return to recessionary economic conditions would also affect demand and possibly average price levels. 2010's strong performance enabled us to rebuild our balance sheet. Our financial position is strong. We remain in a good position to deal with increased operating costs and the economic uncertainty with which we are faced and to reinforce Hong Kong's position as a leading international aviation hub.

The current high fuel prices and economic uncertainty are a reminder that we operate in a challenging and unpredictable industry and accordingly must continue to manage our finances prudently. Despite the uncertainties and challenges, we are confident of our position and that we can meet those challenges. We have a superb team, a strong international network, exceptional standards of customer service, a strong relationship with Air China and our position in one of the world's premier international aviation hubs, Hong Kong. We expect these core strengths to ensure the continued success of the airline.

Christopher Pratt
Chairman
Hong Kong, 10th August 2011

Following the record year of 2010, the passenger business of Cathay Pacific and Dragonair continued to be strong in the first six months of 2011, particularly in the premium classes. However, the cargo business was below expectations and the significant increase in fuel prices adversely affected operating profit. The Group remained focused on improving its products and services and on its commitment to developing Hong Kong's role as one of the world's leading international aviation hubs.

AWARD WINNING PRODUCTS AND SERVICES

- The first aircraft featuring Cathay Pacific's new business class product began flying in March. The product is now available on seven recently delivered Boeing 777-300ER and Airbus A330-300 aircraft. The product is also being installed in existing aircraft of these types. By the end of 2011 the product will be installed in 15 aircraft.
- Aircraft featuring the new business class product principally operate on the Sydney and New York routes. The product has been well received by passengers. Its key feature is the seat, which offers a full-flat bed and a combination of openness and privacy.
- Following the opening of The Cabin in October 2010, work continued on the refurbishment of our signature lounge, The Wing, at Hong Kong International Airport. The Level 6 Business Class Lounge reopened in March. In May the Business Class Lounge on Level 7 closed for refurbishment. The whole renovation project, including the First Class Lounge, will be completed in the second half of 2012.
- In February, Forbes magazine put The Wing at the top of its list of the world's five best international airport lounges.
- We are upgrading our lounge in Frankfurt and this will be completed by November.
- The first Cathay Pacific branded lounge in the United States is currently under construction in San Francisco. This will be open by the end of 2011.
- We continue to improve our catering, including running special promotions. Cathay Pacific has featured dishes from eight acclaimed restaurants in the Miramar Group. Dragonair has launched inflight promotional menus in conjunction with the Michelin-starred restaurant The Square and the acclaimed JW's California at the JW Marriott Hotel Hong Kong.
- In the 2011 Skytrax awards, Cathay Pacific won the Best Airline Transpacific and Best First Class Seat awards, and Dragonair won the World's Best Regional Airline and Best Regional Airline Asia awards.
- Cathay Pacific won Gold and Silver awards for individual and team efforts from the Hong Kong Association for Customer Excellence.
- Three staff from our team at Hong Kong International Airport received the top Team Award at the 2010/11 Customer Service Excellence Programme organised by the Airport Authority of Hong Kong.
- Cathay Pacific won in the airline category in the Sing Tao Excellent Services Brand Awards and the Eastweek Hong Kong Service Awards 2011.

- Cathay Pacific and Dragonair were again awarded the “Caring Company logo” by the Hong Kong Council of Social Service in recognition of their good corporate citizenship.

- Dragonair won the Air Cargo Award of Excellence in the seventh annual Air Cargo Excellence survey for attaining a superior overall rating in the category of “Air Carrier – Up to 199,999 Annual Tonnes” from the readers of Air Cargo World magazine.

- In July, more than 12,000 of our customer-facing staff around the world, including cabin crew and airport, reservations and cargo teams, began wearing the new Cathay Pacific uniform. Created by renowned Hong Kong designer Eddie Lau, the new uniforms build on the signature elements of the previous design to represent the dynamic brand and unique service style of the airline.

HUB DEVELOPMENT

- In June, the Airport Authority of Hong Kong published the Hong Kong International Airport Master Plan 2030, giving two options to enhance the airport’s capacity: to enhance the capacity of the existing two runways or to build a third runway. A public consultation on the options is taking place. We have given our unequivocal support to a third runway as being the only option which can ensure the long-term competitiveness of the Hong Kong hub. Recognising environmental concerns relating to the third runway project, Cathay Pacific is playing an active role in the industry effort to reduce emissions and noise.

- We started a passenger service to Abu Dhabi, the capital of the United Arab Emirates, in June. The four-times-weekly service extends our coverage in the Middle East.

- Our next new destination will be Chicago, with daily flights starting in September.

- Our Milan service moved from four flights per week to daily in July in response to strong demand. In March, Paris became a twice-daily service with the addition of three flights per week operating via Amsterdam.

- We reinstated seven more flights per week to Taipei, bringing the total back to the pre-financial crisis level of 108 per week in each direction.

- We added three more flights per week to New York in March and further increased flights in May, so that a four-times-daily service now operates on this route. Three of the four daily flights operate non-stop. Two more flights per week were added to the Toronto route in May, so that we are once more operating a twice-daily service on this route.

- We added three more flights per week to Jakarta in March, bringing us up to three daily flights on this route. One more flight per week was added to the Surabaya route so that there is now a daily service on this route. There is now a daily non-stop service on the Penang route, as it has been de-linked from Kuala Lumpur on three flights. Singapore became an eight-times-daily service from July.

- We reduced capacity on routes to Japan in response to the reduction in demand following the earthquake and tsunami in March. We restored some of the reduced capacity in June and July in response to some recovery in demand.

- Dragonair increased capacity on its Mainland China and Taiwan routes from March onwards. 10 flights per week were added on the Kaohsiung route, taking the total to 42 per week. One daily flight was added on the Xiamen route, taking the total to four flights per day. The number of flights on the Ningbo route increased from seven to 10 flights per week. There are two flights per day on the Chengdu and Nanjing routes and one flight per day on the Chongqing route.

- Dragonair's capacity was increased on some routes to secondary cities in Mainland China by using larger (Airbus A330-300) aircraft.

- As cargo demand weakened in the second quarter, we adjusted schedules accordingly. At the same time we strengthened our freighter network where possible, adding a weekly service to Bangkok, flying via Singapore, in May, and a new twice-weekly flight freighter service to Bengaluru in August, operating via Delhi.

- Work on the Cathay Pacific cargo terminal continues. Topping out for the main terminal building will take place in the fourth quarter of 2011. The facility will open in early 2013. It will be one of the largest and most sophisticated airfreight terminals in the world, helping to reinforce Hong Kong's position as the world's busiest international air cargo hub.

FLEET DEVELOPMENT

- In March, Cathay Pacific announced orders for two more Airbus A350-900s, 15 more Airbus A330-300s and 10 more Boeing 777-300ERs. These aircraft will be delivered over the period to the end of 2015. In August, Cathay Pacific announced the acquisition of four Boeing 777-300ERs and eight Boeing 777-200F freighters. There are 97 new aircraft in total on order, for delivery up to 2019.

- In the first half of 2011 we took delivery of two Airbus A330-300s and four Boeing 777-300ER passenger aircraft. In 2011 as a whole, we will take delivery of 14 new aircraft, including five new-generation Boeing 747-8F freighters. The delivery dates for these freighters have been deferred again. Two are now scheduled to be delivered in September, with three more arriving before the end of the year. However, the latest delivery schedule is still subject to final confirmation.

- The second of four Boeing 747-400BCF freighters being sold to our cargo joint venture with Air China was sold in July. The remaining two will be sold to the cargo joint venture in early 2012.

- A total of three of our Boeing 747-400BCF freighters are being dry-leased to Air Hong Kong in order to increase its capacity on its key regional routes. Two have already been transferred to Air Hong Kong. The third will be transferred in September.

- One Airbus A330-300 was transferred from Cathay Pacific to Dragonair during the first half. Dragonair's all Airbus fleet now totals 32 aircraft.
- The four leased Airbus A340-300s parked by Cathay Pacific during the financial crisis of 2008-2009 will not return to service. One has already been returned to its lessor and the rest will be returned to their lessors later this year.
- We plan to retire the 21 Boeing 747-400s and 11 Airbus A340-300s in the Cathay Pacific fleet before the end of the decade as new, more efficient aircraft arrive.

PIONEER IN TECHNOLOGY

- We expect to launch a new broadband service on Cathay Pacific and Dragonair aircraft in early 2012. The service will enable passengers to use mobile devices on board. It will also provide an additional inflight entertainment portal.
- Cathay Pacific was a pioneer in Asia in introducing a ticket change function on its website. The function was extended to North America in 2010 and to most major destinations in the first half of 2011.
- In May, we introduced a new booking system for our subsidiary, Cathay Holidays Limited.
- Cathay Pacific continued to increase its presence in social media. New Facebook pages were opened in a number of countries. The main Cathay Pacific Facebook page now has more than 100,000 fans, making it one of the most popular airline Facebook pages.
- We are developing a web-based reservations and check-in system for Cathay Pacific and Dragonair. We expect to introduce the new system in the first quarter of 2012.
- We continue to extend and improve our applications for mobile devices. In May, together with the Hong Kong Tourism Board, we introduced an app which gives iPad and iPhone users a virtual tour of major Hong Kong attractions.
- Cathay Pacific was the first to design a customised airline application for the BlackBerry PlayBook device, which went on sale in Hong Kong in July.

PARTNERSHIPS

- In March, our codeshare arrangements with **one**world partner Japan Airlines were expanded so as to include Akita and our codeshare arrangements with WestJet were expanded so as to include Kelowna in British Columbia, Canada.
- In June we expanded our codeshare arrangements with Alaska Airlines so as to include Mexico City and Guadalajara (in each case via Los Angeles).

- In June we announced an expansion of our codeshare arrangements with **one**world partner American Airlines. Cathay Pacific will put its code on 11 American Airlines routes in the United States. The destinations are Atlanta, Charlotte, Cleveland, Columbus, Detroit, Kansas City, Minneapolis-St Paul, Philadelphia, Pittsburgh, Phoenix and Salt Lake City. American Airlines will put its code on our new Chicago route and on our route to Ho Chi Minh City. We also agreed to terminate six existing codeshare arrangements with American Airlines, the destinations being Austin, Chicago, Fort Lauderdale, Newark, San Jose and San Juan.

- In June it was announced that Malaysia Airlines will join the **one**world alliance. This is expected to happen in 2012, when Kingfisher and Air Berlin are also expected to join the alliance.

ENVIRONMENT

- In July, we published our second Sustainable Development Report for 2010. The title, "Our Shared Journey", underlines our commitment to engage with our stakeholders. We again achieved the Global Reporting Initiative (GRI) A+ rating, the highest level possible under GRI guidelines. These guidelines are an internationally accepted benchmark for reporting on sustainability.

- Cathay Pacific continues to engage with regulators and with groups involved in shaping aviation policy in relation to climate change. We work with the International Civil Aviation Organisation, International Air Transport Association, Aviation Global Deal, the Sustainable Aviation Fuel Users Group and the Association of Asia Pacific Airlines. We aim to increase awareness of climate change issues and to develop appropriate solutions for the aviation industry.

- In March we participated in Earth Hour, an annual event sponsored by the World Wildlife Fund for Nature. We switched off all non-essential lighting in our buildings and on billboards.

- In March, the FTSE4Good Group confirmed that we continue to be included on the FTSE4Good Index Series. This series measures the performance of companies which meet globally recognised corporate responsibility standards and is intended to facilitate investment in such companies.

- In March, in compliance with the relevant European Union Emissions Trading Scheme regulations on aviation, we submitted tonne-kilometre and emissions reports to the UK Environment Agency.

- In April, Cathay Pacific won the Hong Kong Awards for Environmental Excellence gold award for Transport and Logistics. This follows our silver award in 2010 and our bronze award in 2009.

- In May, we planted some trees on Lantau Island in Hong Kong as part of an event organised by the Airport Authority of Hong Kong. In the same month Cathay Pacific staff participated in a forest biodiversity field day in Tai Po Kau nature reserve. The field day was organised by the Earthwatch Institute with the support of the Hong Kong Bird Watching Society.

- In May, we became a member of the Asia Pacific Business and Sustainability Council.

- Our latest range of business class travel kits contain biodegradable products for the first time.

- Dragonair has been working with Nature Conservancy since 2004 on the "Change for Conservation" inflight fundraising campaign. Change for Conservation raises awareness of the importance of nature conservation. Funds are used in Yunnan (in Mainland China) to protect watershed areas, to alleviate poverty and to develop sustainable economic alternatives for local people. Dragonair has raised over HK$8 million for Change for Conservation.

- Cathay Pacific and Dragonair continue to participate in the "FLY *greener*" carbon offset programme. This allows passengers to offset the environmental impact of their travel.

CONTRIBUTION TO THE COMMUNITY

- The Group and its staff raised a total of HK$10 million for victims of the earthquake and tsunami in Japan in March. The funds (including HK$1 million from the Swire Group Charitable Trust) were donated to the Red Cross. We also provided and transported relief items such as blankets, socks and towels, sponsored tickets and made a donation from the "Change for Good" funds. These additional items were valued at more than HK$3 million.

- Following the disaster, we sponsored tickets for a number of artists from around Asia to perform in a fundraising concert in Hong Kong.

- We donated RMB500,000 to the Red Cross to help victims of the Yunnan earthquake. Staff collected HK$375,000 for donation to the New Zealand Red Cross to help the victims of the Christchurch earthquake.

- The "Cathay Pacific Green Explorer" programme was launched in May. In August, 40 participants, aged 16 to 18, will participate in the programme in Hong Kong and in Sichuan (in Mainland China). The aim is to improve the participants' understanding of environmental issues and of the importance of conservation.

- The CX Volunteers continued to help the local community. Their activities include the "English on Air" programme, which has helped more than 1,500 students, including one-fifth of Tung Chung school students, to improve their conversational English skills.

- Staff volunteers visited single elderly people in Tung Chung (on Lantau Island in Hong Kong) to help decorate their houses before Chinese New Year.

- Cathay Pacific continued to support UNICEF through its "Change for Good" inflight fundraising programme. In June we announced that the airline's passengers contributed more than HK$12.3 million in 2010 to help improve the lives of disadvantaged children around the world. Since the programme's launch in 1991, more than HK$110 million has been raised through "Change for Good".

- Cathay Pacific was awarded the "Five Years Plus" Caring Company Logo by the Hong Kong Council of Social Service, in recognition of its good corporate citizenship, for the fifth consecutive year. Dragonair was named a "Caring Company" for the sixth consecutive year.

- In May we launched the "Connecting Your World" campaign as part of the celebrations to mark 100 years of aviation in Hong Kong. The campaign invited the Hong Kong public to offer their ideas on how aviation has connected Hong Kong to the world, with 1,800 air tickets shared amongst Hong Kong's 18 districts as prizes. More than 6,500 people submitted entries.

- Other initiatives to mark the aviation centenary included a major fare promotion in March, an aviation knowledge contest for students and a record-breaking aircraft pull. The knowledge contest, organised in conjunction with the Hong Kong Civil Aviation Department and the Hong Kong Air Cadet Corps, attracted more than 260 teams from secondary schools around Hong Kong, with the winning team being flown to the Boeing factory in Seattle for a delivery flight trip. More than 5,000 young aviation fans were engaged through a Facebook campaign based on the contest.

- Cathay Pacific continued to support the Hong Kong community by helping to stage major events in the city. In January we sponsored the Hong Kong Tennis Classic, which we have backed for more than three decades. In February we were the title sponsor for the International Chinese New Year Night Parade, for the 13th consecutive year. In March, we were once again co-sponsors of the Cathay Pacific/Credit Suisse Hong Kong Sevens. In May we announced an agreement to co-sponsor the event with HSBC from 2012 to 2015.

- Thirty-eight of our staff contributed to a new book, Flying High with 38 Hearts of Gold, telling stories of their volunteering efforts around the world. Royalties from the book will be donated to the Sunnyside Club, a charity set up by Cathay Pacific staff to help physically and mentally challenged children in Hong Kong.

- Cathay Pacific continues to engage the local public through organised tours of the airline's headquarters complex. In the first six months, more than 5,500 visitors from schools and NGOs were welcomed.
- The Dragonair Aviation Certificate Programme is the airline's signature corporate social responsibility initiative, jointly organised by Dragonair and the Hong Kong Air Cadet Corps. The programme aims to inspire a new generation of aviators in Hong Kong by giving them firsthand knowledge of the industry. It now has 24 participants, each paired with a Dragonair pilot as a mentor.

COMMITMENT TO STAFF

- At the end of June, the Group employed some 28,100 people worldwide. More than 21,000 of these staff are based in Hong Kong.
- Cathay Pacific will continue to recruit new staff as it expands its operations. We expect to recruit more than 1,500 new staff in 2011.
- In March, we announced that eligible staff would receive a profit share for 2010 equal to five weeks salary, plus HK$6,000 (or half of their monthly salary if lower).
- The Cathay Pacific cadet pilot programme has been opened to applicants from around the world. 20 cadets graduated in the first half of 2011. 69 cadets were being trained in Adelaide at the end of June.
- Dragonair continues to run its own cadet pilot scheme. 12 cadets will be recruited in 2011.
- We regularly review our human resource and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.
- We have restructured our performance management system in order to focus more on staff development and career progression.
- Our internal ideas campaign, "We Suggest", is being run for the sixth time. The campaign aims to generate ideas from staff on how to improve our business.
- The seventh annual Betsy Awards took place in June. These internal awards honour staff who go beyond the call of duty to assist passengers in need.

Our complete Sustainable Development Report is available online at *www.cathaypacific.com*.

FLEET PROFILE*

	Number as at 30th June 2011				Firm orders				Expiry of operating leases							
		Leased														
Aircraft type	Owned	Finance	Operating	**Total**	'11	'12	'13 and beyond	**Total**	'11	'12	'13	'14	'15	'16 and beyond	Options	Purchase rights
Aircraft operated by Cathay Pacific:																
A330-300	11	15	6	**32**	1	6	13	**20**					2	4		
A340-300	6	5	3	**14**					3							
A350-900							32[a]	**32**							10[b]	
747-400	16		5	**21**						2			2	1		
747-400F	3	3		**6**												
747-400BCF	5		4	**9**							2	1		1		
747-400ERF		6		**6**												
747-8F					5	5		**10**								
777-200	5			**5**												
777-300	3	9		**12**												
777-300ER	3	8	11	**22**	2	5	17	**24**						11		20[c]
Total	52	46	29	**127**	8	16	62	**86**	3	2	2	1	4	17	10	20
Aircraft operated by Dragonair:																
A320-200	5		6	**11**									2	4		
A321-200	2		4	**6**									2	2		
A330-300	4	1	10	**15**						3	3	1	1	2		
747-400BCF	1			**1**[d]												
Total	12	1	20	**33**						3	3	1	5	8		
Aircraft operated by Air Hong Kong:																
A300-600F	2	6		**8**												
747-400BCF			2	**2**										2		
Total	2	6	2	**10**										2		
Grand total	**66**	**53**	**51**	**170**	**8**	**16**	**62**	**86**	**3**	**5**	**5**	**2**	**9**	**27**	**10**	**20**

* Includes parked aircraft. This profile does not reflect aircraft movements after 30th June 2011.

(a) Including two aircraft on 12-year operating leases.
(b) Options, to be exercised no later than 2016 for A350 family aircraft.
(c) Purchase rights for aircraft delivered by 2017.
(d) The aircraft was sold to Air China Cargo in July 2011.

REVIEW OF OTHER SUBSIDIARIES AND ASSOCIATES

AHK Air Hong Kong Limited ("Air Hong Kong")

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60% owned by Cathay Pacific. Its principal business is the operation of express cargo services for DHL Express.
- Air Hong Kong operates eight owned Airbus A300-600F freighters, two Boeing 747-400BCF freighters dry-leased from Cathay Pacific and one wet-leased Boeing 727 freighter. In September, the wet-leased freighter will be replaced by a further Boeing 747-400BCF freighter dry-leased from Cathay Pacific.

- Air Hong Kong operates six flights per week to each of Bangkok, Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week to each of Beijing, Manila, Nagoya, Osaka and (via Bangkok) Penang.

- On-time performance was 93%, compared with a target of 95%.

- Capacity increased by 1% compared with the first half of 2010. The load factor decreased by 2%. Yield increased by 19%.

- Principally owing to the increase in yield, Air Hong Kong achieved a moderate increase in profit in the first half of 2011 compared with the first half of 2010.

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

- CPCS reported a minor decrease in profit in the first half of 2011 compared to the first half of 2010. There was a 3% growth in meal volumes, but margins were adversely affected by food price inflation and higher operating costs.

- Outside Hong Kong, profits increased in Ho Chi Minh City, Cebu and Canada. Profits fell in Taipei.

Hong Kong Airport Services Limited ("HAS")

- HAS provides ramp and passenger handling services in Hong Kong to 34 airlines, including Cathay Pacific and Dragonair. In the first half of 2011 it had market shares of 49% and 24% in ramp and passenger handling services respectively.

- Two passenger handling customers were gained in the period and one ramp handling customer was lost. Flights for which ramp handling was provided increased by 2%. Flights for which passenger handling was provided increased by 10%.

- The financial results for the first half of 2011 were significantly improved compared to those of the first half of 2010. The improvement primarily reflected the increased number of flights handled and improved yields.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific owns 19.0%, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.

- As at 30th June 2011, Air China operated scheduled services to 32 countries and regions. It flies to 90 cities in Mainland China and 47 cities outside Mainland China.

- The Group's share of Air China's results is based on accounts drawn up three months in arrear and consequently the 2011 interim results include Air China's results for the six months ended 31st March 2011.

- The Group recorded an increase in profit from Air China's results in the first half of 2011. This primarily reflected strong demand in the fourth quarter of 2010.

Air China Cargo Limited ("Air China Cargo")

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of cargo services in Mainland China.

- As at 30th June 2011, Air China Cargo had a fleet of nine Boeing 747-400 freighters. It operates scheduled freighter services to nine countries and regions. It flies to four cities in Mainland China and 13 cities outside Mainland China. Taking account of its right to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections with a total of 141 destinations.

PASSENGER SERVICES

Cathay Pacific and Dragonair carried a total of 13.2 million passengers in the first half of 2011, an increase of 1.7% compared to the same period in 2010. This was a slower rate of growth than in 2010. The load factor was 79.3%, representing a reduction of 4.7 percentage points compared with the first half of 2010. Both premium and economy class yields improved. Premium class demand was strong despite economic uncertainty in some key markets. This, together with careful revenue management, was one of the main contributors to the yield increase of 11.8% to HK65.3 cents. Revenue from passenger services in the first half of 2011 grew by 15.9% to HK$31,774 million compared with the same period in 2010. Capacity increased by 9.8%. Seasonal factors mean that the passenger business is generally stronger in the second half of the financial year than in the first. This is because leisure travel peaks in the summer and before Christmas and business travel (and therefore premium class revenues) peaks in the autumn.

Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair passenger services for the first half of 2011 were as follows:

	ASK (million)			Load factor (%)			Yield
	2011	2010	**Change**	**2011**	2010	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**5,546**	5,475	**+1.3%**	**75.9**	78.3	**-2.4%pt**	**+10.0%**
Southeast Asia	**7,714**	6,811	**+13.3%**	**82.7**	82.4	**+0.3%pt**	**+9.8%**
Southwest Pacific and South Africa	**9,444**	9,173	**+3.0%**	**73.3**	80.6	**-7.3%pt**	**+15.6%**
Europe	**11,159**	9,838	**+13.4%**	**81.2**	85.8	**-4.6%pt**	**+12.3%**
North Asia	**12,445**	11,548	**+7.8%**	**69.7**	80.3	**-10.6%pt**	**+19.4%**
North America	**14,828**	12,835	**+15.5%**	**89.3**	91.7	**-2.4%pt**	**+7.7%**
Overall	**61,136**	55,680	**+9.8%**	**79.3**	84.0	**-4.7%pt**	**+11.8%**

- The strength of a number of key operating currencies relative to Hong Kong dollars and US dollars had a positive impact on revenues during the first half of 2011. But increased fuel prices significantly affected profitability and remain a key cost driver.

- Demand for economy class seats was slightly less than expected. This resulted in the growth in passengers carried being slightly less than the growth in capacity. However, yield increased with effective space management.

- Demand for premium class seats remained strong, despite economic uncertainties in a number of world economies. Business class load factors sustain well, filling up the additional capacity. Yields rose in both first and business classes.

- Capacity increased as new aircraft were added to the fleet, a new destination (Abu Dhabi) was introduced and frequencies were increased on other routes – see above under "Hub Development".

- The earthquake and tsunami in March adversely affected demand on routes to Japan. Load factors fell, particularly on the Tokyo route. Capacity was reduced, but has been partially reinstated – see above under "Hub Development".

- Business originating in Hong Kong (except for that on the Japan routes) was generally as we expected. Demand was strong on key long-haul and regional routes, particularly (where it benefited from the levels of activity in financial markets) in premium classes.

- Business derived from the Pearl River delta continued to grow. The number of passengers connecting with Cathay Pacific via the Dragonair Guangzhou service increased, particularly during the Canton Fair period.

- Business derived from Mainland China (outside the Pearl River delta) was satisfactory and continues to increase in importance. Demand on routes to secondary cities was strong and capacity was increased on some routes in response. The Shanghai route was relatively weak. Competition on this route increased. Demand in the corresponding period in 2010 benefited from the Expo.

- Competition increased on the Taipei route. The overall performance of the Taiwan routes was satisfactory, as demand was strong.

- Competition increased in economy class on the Korean routes, especially on the Busan route.

- Business on most Southeast Asian routes was strong. Traffic to and from Thailand returned to the levels experienced before the 2010 political unrest. The Singapore and Indonesian routes benefited from additional capacity. The Penang route benefited from becoming a daily direct service. The Kuala Lumpur route performance was also strong despite intense competition.

- The Philippines routes maintained their performance, helped by stronger premium travel. The performance of Dragonair's service to Manila continues to improve.

- In India, strong competition on the Delhi and Mumbai routes limited yield growth opportunities in economy class, but the performance in premium classes was generally solid. Business on the Chennai and Bengaluru routes was stable.

- The routes to the Middle East were adversely affected by political unrest and competition. Demand on the newly introduced Abu Dhabi route is increasing. However, the region as a whole is expected to remain difficult for the rest of the year.

- On the Southwest Pacific routes premium class revenue grew in line with capacity, assisted by the strength of the Australian currency. Economy class business was adversely affected by increased competition.

- Business on the South Africa routes was weak. Business travel from Japan was reduced. More Mainland Chinese travellers transited through the Middle East instead of through Hong Kong.

- Premium class revenues grew strongly on the London route. Economy class revenues on the London route were reasonable despite strong competition. On the other European routes, demand for premium class was very strong too despite the significant capacity increase, but economy class demand was sluggish. The Moscow route continued to suffer from intense competition. The Milan route has performed well since its launch last year and frequencies were increased so that it became a daily flight in July.

- There was strong demand for all classes of travel on the North American routes. Corporate demand was particularly strong from the United States to Southeast Asia. Our recently introduced fourth daily flight to New York is performing satisfactorily. In Canada, yield was under pressure given the extra capacity, particularly in economy class.

CARGO SERVICES

2010's strong recovery in the world's air cargo markets continued in the first quarter of 2011. However, from April onwards shipments from Hong Kong and Mainland China (our main markets) weakened significantly. In the first half of 2011, the tonnage carried by Cathay Pacific and Dragonair fell by 4.1% to 0.8 million tonnes by comparison with the first half of 2010. We operated at full capacity at the beginning of the year. Capacity was subsequently reduced as demand fell. Aircraft were taken out of the fleet. Total capacity rose by 14.6% in the first half of 2011. Our load factor dropped by 9.6 percentage points (to 68.4%) by comparison with the first half of 2010. Yield was up by 7.1% to HK$2.42. Cargo revenue increased by 7.7% to HK$11,628 million. The cargo business (while cyclical) is generally stronger in the second half of the calendar year than in the first. The peak period for shipments is before the Christmas retail buying season. We expect the second half of 2011 to be stronger than the first.

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for the first half of 2011 were as follows:

	ATK (million)			Load factor (%)			Yield
	2011	2010	**Change**	**2011**	2010	**Change**	**Change**
Cathay Pacific and Dragonair	**7,031**	6,135	**+14.6%**	**68.4**	78.0	**-9.6%pt**	**+7.1%**

- Demand for cargo shipments from our two main markets, Hong Kong and Mainland China, was weaker than expected in the second quarter. The Mainland China market was affected by a significant increase in competition, particularly on routes to Europe originating in Shanghai. There was good demand on our routes within Asia. We switched some capacity from long-haul routes in order to take advantage of this. Cargo imports to Hong Kong increased, particularly those in transit to Mainland China, where demand for high quality foreign products is increasing. This could help to reduce the imbalance between the volumes of cargo exported from and imported to Hong Kong.
- Our Japan cargo business did not weaken significantly following the earthquake and tsunami in March. However, these natural disasters did reduce the availability of hi-tech items made in Japan. This in turn affected manufacturing activities in Mainland China and, consequentially, cargo shipments from Hong Kong.
- Dragonair continues to make a contribution to our cargo business by selling space in the bellies of its passenger aircraft. We put larger (Airbus A330-300) aircraft on the Chengdu and Chongqing routes in response to increased demand for shipments of hi-tech goods from these cities. We intend to develop our cargo business further in manufacturing centres in central Mainland China.
- The profitability of our cargo business was materially affected by increased fuel prices, particularly on ultra-long-haul routes. Fuel surcharges were increased, but this only partly offset the increase in prices.

- The only major change in our freighter network in the first half of 2011 was the addition of Bangkok from May. This once-weekly service flies via Singapore. In August we launched a new service to Bengaluru, extending our reach into the Indian subcontinent with a twice-weekly flight via Delhi. There were some adjustments to our intra-Asia schedules including separating the Hong Kong service to Dhaka and Hanoi into two separate flights from the middle of May to take advantage of strong demand from these two Asian ports.

- There was no significant cargo peak during the first six months of 2011. We managed capacity in line with demand on key routes.

- In May we launched our cargo joint venture with Air China, in which we hold an equity and an economic interest. The joint venture operates from Shanghai under the Air China Cargo name. Shipments of air cargo between the Yangtze River Delta region and major markets round the world are large and growing, accounting for two-thirds of Mainland China's air cargo business. The key markets are North America, Europe and North Asia. In addition to operating its own freighters, the venture has exclusive rights to carry cargo in the bellies of the entire Air China passenger fleet. We are confident that the venture will succeed in capitalising on the opportunities afforded to it.

- The second of four Boeing 747-400BCF freighters being sold by the Group to the Air China Cargo joint venture was sold in July. The remaining two will be sold in early 2012. By then the joint venture will be operating 12 Boeing 747-400 freighters.

- Air Hong Kong is dry-leasing three Cathay Pacific Boeing 747-400BCF freighters in order to upgrade its services on regional routes. Cathay Pacific will share some of this capacity with Air Hong Kong. Two of the leased aircraft are already flying for Air Hong Kong. The third will start flying for Air Hong Kong in September. Air Hong Kong has an option to dry-lease a fourth Boeing 747-400BCF freighter from Cathay Pacific.

- The delivery of our new-generation Boeing 747-8F freighters has been delayed again. The first two were due to arrive in August but are now scheduled to be delivered in September, with three more arriving before the end of the year. The arrival of these new freighters will give us more capacity during the busy winter peak period. However, the latest delivery schedule is still subject to final confirmation.

- Cathay Pacific is deeply committed to developing its home base as a centre for airfreight. In 2010 Hong Kong International Airport became the world's busiest international air cargo hub. We are further strengthening Hong Kong's position by building our own cargo terminal at Hong Kong International Airport. When the HK$5.5 billion facility begins operations in early 2013 it will be one of the biggest and most sophisticated cargo terminals in the world.

ASIA MILES

- Asia Miles – the travel reward programme for Cathay Pacific reached a milestone in terms of membership in June 2011. The worldwide membership base grew to four million strong while the Hong Kong membership base hit one million members. Given Hong Kong's population of seven million, the Asia Miles membership base is significant as it equates to one in every seven Hong Konger enrolled as an Asia Miles member.
- Asia Miles currently has over 400 partners in nine categories including airlines, hotels and major financial institutions.
- Over 90% of Cathay Pacific flights carried passengers redeeming Asia Miles.
- There was a 24% growth in flight redemptions from Asia Miles members on its 20 partner airlines in the first half of 2011.

ANTITRUST INVESTIGATIONS

Cathay Pacific remains the subject of antitrust investigations and proceedings by competition authorities in various jurisdictions and continues to cooperate with these authorities and, where applicable, defend itself vigorously. These investigations are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with accounting policy 19 set out on page 51 in the 2010 Annual Report.

Financial Review

TURNOVER

	Group		Cathay Pacific and Dragonair	
	Six months ended 30th June		Six months ended 30th June	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Passenger services	**31,774**	27,411	**31,774**	27,411
Cargo services	**12,870**	11,844	**11,628**	10,794
Catering, recoveries and other services	**2,147**	2,082	**1,813**	1,757
Turnover	**46,791**	41,337	**45,215**	39,962

- Group passenger turnover increased 15.9% against a 9.8% increase in capacity. The increased turnover principally reflected an increase in demand for premium class travel, higher fuel surcharges and careful revenue management.
- Group cargo turnover rose by 8.7%. Combined Cathay Pacific and Dragonair cargo turnover increased by 7.7%. The increase in turnover reflected strong demand in the first quarter of 2011 (offset in part by weak demand in the second quarter) and higher fuel surcharges.
- Group turnover from catering, recoveries and other services increased by 3.1%.

OPERATING EXPENSES

	Group			Cathay Pacific and Dragonair		
	Six months ended 30th June			Six months ended 30th June		
	2011 HK$M	2010 HK$M	**Change**	**2011 HK$M**	2010 HK$M	**Change**
Staff	**7,206**	6,759	**+6.6%**	**6,560**	6,190	**+6.0%**
Inflight service and passenger expenses	**1,797**	1,551	**+15.9%**	**1,797**	1,551	**+15.9%**
Landing, parking and route expenses	**6,259**	5,280	**+18.5%**	**6,149**	5,195	**+18.4%**
Fuel	**18,564**	13,169	**+41.0%**	**18,175**	12,898	**+40.9%**
Aircraft maintenance	**3,760**	3,167	**+18.7%**	**3,661**	3,095	**+18.3%**
Aircraft depreciation and operating leases	**4,092**	4,091	**–**	**4,007**	4,006	**–**
Other depreciation, amortisation and operating leases	**580**	547	**+6.0%**	**469**	432	**+8.6%**
Commissions	**398**	357	**+11.5%**	**398**	357	**+11.5%**
Others	**1,337**	1,454	**-8.0%**	**1,573**	1,620	**-2.9%**
Operating expenses	**43,993**	36,375	**+20.9%**	**42,789**	35,344	**+21.1%**
Net finance charges	**314**	562	**-44.1%**	**293**	536	**-45.3%**
Total operating expenses	**44,307**	36,937	**+20.0%**	**43,082**	35,880	**+20.1%**

- Group total operating expenses increased 20.0% to HK$44,307 million.
- The combined cost per ATK of Cathay Pacific and Dragonair rose from HK$3.14 to HK$3.35, principally due to the 38.8% increase in the average fuel price.

CATHAY PACIFIC AND DRAGONAIR OPERATING RESULTS ANALYSIS

	Six months ended 30th June	
	2011 HK$M	2010 HK$M
Airlines' operating profit before fuel hedging, non-recurring items and tax	**1,171**	4,195
Profit on disposal of Hactl and HAECO shares	**–**	2,165
Net provision for impairment of aircraft and related equipment	**–**	(9)
Airlines' profit before fuel hedging gains/(losses) and tax	**1,171**	6,351
Realised and unrealised fuel hedging gains/(losses)	**962**	(104)
Tax charge	**(380)**	(403)
Airlines' profit after tax	**1,753**	5,844
Share of profits from subsidiaries and associates	**1,055**	996
Profit attributable to owners of Cathay Pacific	**2,808**	6,840

The changes in the interim airlines' operating profit before fuel hedging, non-recurring items and tax can be analysed as follows:

	HK$M	
2010 interim airlines' operating profit before fuel hedging, non-recurring items and tax	4,195	
Passenger and cargo turnover	4,363	**Passenger** – Increased HK$2,676 million due to a 9.8% increase in capacity. – A 4.7 percentage points decrease in load factor contributed to a decrease of HK$1,672 million. – HK$3,359 million increase from an 11.8% increase in yield resulting from higher premium class demand, favourable currency movements and higher fuel surcharges.
	834	**Cargo** – Increased HK$1,576 million due to a 14.6% increase in capacity. – A 9.6 percentage points decrease in load factor contributed to a decrease of HK$1,520 million. – HK$778 million increase from a 7.1% increase in yield partly due to higher fuel surcharges.
Fuel	(6,343)	– Fuel costs increased due to a 38.8% increase in the average into-plane fuel price to US$128.0 per barrel and a 7.6% increase in consumption to 19.2 million barrels.
Landing, parking and route expenses	(954)	– Increased mainly due to an increase in operation.
Aircraft maintenance	(566)	– Increased mainly due to an increase in operation.
Staff	(370)	– Increased mainly due to an increase in headcount.
Others	12	
2011 interim airlines' operating profit before fuel hedging, non-recurring items and tax	**1,171**	

FUEL EXPENDITURE AND HEDGING

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

	Six months ended 30th June	
	2011 HK$M	2010 HK$M
Gross fuel cost	**19,526**	13,065
Realised hedging (gains)/losses	**(1,134)**	72
Unrealised mark to market losses	**172**	32
Net fuel cost	**18,564**	13,169

FINANCIAL POSITION

- Additions to fixed assets were HK$6,491 million, comprising HK$5,139 million for aircraft and related equipment and HK$1,352 million for other equipment and buildings.
- Borrowings decreased by 1.0% to HK$39,238 million. These are fully repayable by 2023 and are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars, Japanese yen and Euros with 69% at fixed rates of interest after taking into account the effect of related derivatives.
- Liquid funds, 79.7% of which are denominated in US dollars, decreased by 23.0% to HK$18,641 million.
- Net borrowings increased by 33.4% to HK$20,598 million.
- Funds attributable to the owners of Cathay Pacific increased by 1.2% to HK$54,899 million. The net debt/equity ratio increased to 0.38 times.
- The Group's policies in relation to financial risk management and the management of currency, interest rate and fuel price exposures are set out in the 2010 Annual 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 24 to 38, which comprises the consolidated statement of financial position of Cathay Pacific Airways Limited as of 30th June 2011 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month 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 2011 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
10th August 2011

Condensed Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30th June 2011 – Unaudited

	Note	2011 HK$M	2010 HK$M	2011 US$M	2010 US$M
Turnover					
Passenger services		**31,774**	27,411	**4,074**	3,514
Cargo services		**12,870**	11,844	**1,650**	1,519
Catering, recoveries and other services		**2,147**	2,082	**275**	267
Total turnover	2	**46,791**	41,337	**5,999**	5,300
Expenses					
Staff		**(7,206)**	(6,759)	**(924)**	(867)
Inflight service and passenger expenses		**(1,797)**	(1,551)	**(230)**	(199)
Landing, parking and route expenses		**(6,259)**	(5,280)	**(803)**	(677)
Fuel		**(18,564)**	(13,169)	**(2,380)**	(1,688)
Aircraft maintenance		**(3,760)**	(3,167)	**(482)**	(406)
Aircraft depreciation and operating leases		**(4,092)**	(4,091)	**(525)**	(524)
Other depreciation, amortisation and operating leases		**(580)**	(547)	**(74)**	(70)
Commissions		**(398)**	(357)	**(51)**	(46)
Others		**(1,337)**	(1,454)	**(171)**	(186)
Operating expenses		**(43,993)**	(36,375)	**(5,640)**	(4,663)
Operating profit before non-recurring items		**2,798**	4,962	**359**	637
Profit on disposal of investments	4	**–**	2,165	**–**	277
Operating profit	5	**2,798**	7,127	**359**	914
Finance charges		**(849)**	(887)	**(109)**	(114)
Finance income		**535**	325	**69**	42
Net finance charges	6	**(314)**	(562)	**(40)**	(72)
Share of profits of associates		**861**	827	**110**	106
Profit before tax		**3,345**	7,392	**429**	948
Taxation	7	**(445)**	(462)	**(57)**	(59)
Profit for the period		**2,900**	6,930	**372**	889
Other comprehensive income					
Cash flow hedges		**519**	234	**66**	30
Revaluation deficit arising from available-for-sale financial assets		**(17)**	(293)	**(2)**	(38)
Share of other comprehensive income of associates		**92**	17	**12**	2
Exchange differences on translation of foreign operations		**292**	77	**37**	10
Other comprehensive income for the period, net of tax	8	**886**	35	**113**	4
Total comprehensive income for the period		**3,786**	6,965	**485**	893
Profit attributable to					
Owners of Cathay Pacific		**2,808**	6,840	**360**	877
Non-controlling interests		**92**	90	**12**	12
		2,900	6,930	**372**	889
Total comprehensive income attributable to					
Owners of Cathay Pacific		**3,694**	6,875	**473**	881
Non-controlling interests		**92**	90	**12**	12
		3,786	6,965	**485**	893
Earnings per share (basic and diluted)	9	**71.4¢**	173.9¢	**9.2¢**	22.3¢

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 28 to 38 form part of these accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30th June 2011 – Unaudited

	Note	30th June 2011 HK$M	31st December 2010 HK$M	30th June 2011 US$M	31st December 2010 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*11*	**68,032**	66,112	**8,722**	8,476
Intangible assets	*12*	**8,202**	8,004	**1,051**	1,026
Investments in associates	*13*	**16,518**	12,926	**2,118**	1,657
Other long-term receivables and investments		**4,511**	4,359	**578**	559
		97,263	91,401	**12,469**	11,718
Long-term liabilities		**(32,866)**	(36,235)	**(4,214)**	(4,646)
Related pledged security deposits		**4,156**	5,310	**533**	681
Net long-term liabilities	*14*	**(28,710)**	(30,925)	**(3,681)**	(3,965)
Other long-term payables	*15*	**(1,979)**	(1,700)	**(254)**	(217)
Deferred taxation		**(6,096)**	(5,815)	**(781)**	(746)
		(36,785)	(38,440)	**(4,716)**	(4,928)
Net non-current assets		**60,478**	52,961	**7,753**	6,790
Current assets and liabilities					
Stock		**1,054**	1,021	**135**	131
Trade, other receivables and other assets	*16*	**14,066**	11,433	**1,803**	1,466
Liquid funds	*17*	**18,641**	24,198	**2,390**	3,102
		33,761	36,652	**4,328**	4,699
Current portion of long-term liabilities		**(12,011)**	(9,249)	**(1,540)**	(1,186)
Related pledged security deposits		**1,483**	545	**190**	70
Net current portion of long-term liabilities	*14*	**(10,528)**	(8,704)	**(1,350)**	(1,116)
Trade and other payables	*18*	**(17,017)**	(15,773)	**(2,181)**	(2,022)
Unearned transportation revenue		**(10,060)**	(9,166)	**(1,290)**	(1,175)
Taxation		**(1,568)**	(1,541)	**(201)**	(198)
		(39,173)	(35,184)	**(5,022)**	(4,511)
Net current (liabilities)/assets		**(5,412)**	1,468	**(694)**	188
Net assets		**55,066**	54,429	**7,059**	6,978
CAPITAL AND RESERVES					
Share capital	*19*	**787**	787	**101**	101
Reserves		**54,112**	53,487	**6,937**	6,857
Funds attributable to owners of Cathay Pacific		**54,899**	54,274	**7,038**	6,958
Non-controlling interests		**167**	155	**21**	20
Total equity		**55,066**	54,429	**7,059**	6,978

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 28 to 38 form part of these accounts.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30th June 2011 – Unaudited

	2011 HK$M	2010 HK$M	2011 US$M	2010 US$M
Operating activities				
Cash generated from operations	**7,069**	8,892	**906**	1,140
Dividends received from associates	**383**	57	**49**	7
Interest received	**52**	40	**6**	5
Net interest paid	**(253)**	(336)	**(32)**	(43)
Tax paid	**(217)**	(161)	**(28)**	(21)
Net cash inflow from operating activities	**7,034**	8,492	**901**	1,088
Investing activities				
Net decrease/(increase) in liquid funds other than cash and cash equivalents	**2,213**	(6,790)	**284**	(871)
Sales of fixed assets	**645**	327	**82**	42
Disposal of investments	**–**	3,260	**–**	418
Net (increase)/decrease in other long-term receivables and investments	**(19)**	4	**(2)**	1
Payments for investments in associates	**(2,731)**	(1,040)	**(350)**	(133)
Payments for fixed and intangible assets	**(6,709)**	(4,335)	**(860)**	(556)
Net cash outflow from investing activities	**(6,601)**	(8,574)	**(846)**	(1,099)
Financing activities				
New financing	**3,197**	4,328	**410**	555
Loan and finance lease repayments	**(4,066)**	(5,911)	**(521)**	(758)
Security deposits placed	**(18)**	(17)	**(2)**	(2)
Dividends paid – to owners of Cathay Pacific	**(3,069)**	(393)	**(394)**	(50)
– to non-controlling interests	**(80)**	(82)	**(10)**	(11)
Net cash outflow from financing activities	**(4,036)**	(2,075)	**(517)**	(266)
Decrease in cash and cash equivalents	**(3,603)**	(2,157)	**(462)**	(277)
Cash and cash equivalents at 1st January	**8,272**	10,094	**1,061**	1,294
Effect of exchange differences	**120**	6	**15**	1
Cash and cash equivalents at 30th June	**4,789**	7,943	**614**	1,018

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 28 to 38 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2011 – Unaudited

	Attributable to owners of Cathay Pacific							Non-controlling interests	Total equity
			Non-distributable						
	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	Total HK$M	HK$M	HK$M
At 1st January 2011	**787**	**37,061**	**16,295**	**1,102**	**(1,871)**	**900**	**54,274**	**155**	**54,429**
Total comprehensive income for the period	**–**	**2,808**	**–**	**(17)**	**519**	**384**	**3,694**	**92**	**3,786**
2010 final dividends	**–**	**(3,069)**	**–**	**–**	**–**	**–**	**(3,069)**	**–**	**(3,069)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(80)**	**(80)**
	–	**(261)**	**–**	**(17)**	**519**	**384**	**625**	**12**	**637**
At 30th June 2011	**787**	**36,800**	**16,295**	**1,085**	**(1,352)**	**1,284**	**54,899**	**167**	**55,066**
At 1st January 2010	787	24,704	16,295	1,117	(1,383)	718	42,238	147	42,385
Total comprehensive income for the period	–	6,840	–	(293)	234	94	6,875	90	6,965
2009 final dividends	–	(393)	–	–	–	–	(393)	–	(393)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(82)	(82)
	–	6,447	–	(293)	234	94	6,482	8	6,490
At 30th June 2010	787	31,151	16,295	824	(1,149)	812	48,720	155	48,875

The notes on pages 28 to 38 form part of these accounts.

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard HKAS 34, "*Interim financial reporting*", issued by the Hong Kong Institute of Certified Public Accountants. It was authorised for issue on 10th August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements.

2. Turnover

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

3. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M	**2011 HK$M**	2010 HK$M	**2011 HK$M**	2010 HK$M
Sales to external customers	**46,308**	40,865	**483**	472			**46,791**	41,337
Inter-segment sales	**4**	–	**769**	642			**773**	642
Segment revenue	**46,312**	40,865	**1,252**	1,114			**47,564**	41,979
Segment results	**2,715**	7,059	**83**	68			**2,798**	7,127
Net finance charges	**(311)**	(546)	**(3)**	(16)			**(314)**	(562)
	2,404	6,513	**80**	52			**2,484**	6,565
Share of profits of associates					**861**	827	**861**	827
Profit before tax	**2,404**	6,513	**80**	52	**861**	827	**3,345**	7,392
Taxation	**(432)**	(452)	**(13)**	(10)			**(445)**	(462)
Profit for the period							**2,900**	6,930

3. Segment information (continued)

The Group's two reportable segments are classified according to the nature of the business. The airline business segment comprises the Group's passenger and cargo operations. The non-airline business segment includes mainly catering, ground handling and aircraft ramp handling services.

The major revenue earning asset is the aircraft fleet which is used for both passenger and cargo services. Management considers that there is no suitable basis for allocating such assets and related operating costs between the two segments. Accordingly, passenger and cargo services are not disclosed as separate business segments.

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

(b) Geographical information

	Six months ended 30th June	
	2011 HK$M	2010 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**20,206**	19,008
– Japan, Korea and Taiwan	**6,343**	5,121
India, Middle East, Pakistan and Sri Lanka	**2,333**	2,193
Southeast Asia	**3,407**	2,776
Southwest Pacific and South Africa	**3,391**	2,954
Europe	**4,641**	4,092
North America	**6,470**	5,193
	46,791	41,337

India, Middle East, Pakistan and Sri Lanka includes the Indian sub-continent, the Middle East, Pakistan, Sri Lanka and Bangladesh. Southeast Asia includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam and Cambodia. Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. Europe includes continental Europe, the United Kingdom, Scandinavia, Russia, the Baltic states and Turkey. North America includes U.S.A., Canada and Latin America. A geographic analysis of segment results is not disclosed for the reasons set out in the 2010 Annual Report.

4. Profit on disposal of investments

	Six months ended 30th June	
	2011 HK$M	2010 HK$M
Profit on disposal of an associate	**–**	1,837
Profit on disposal of a long-term investment	**–**	328
	–	2,165

In June 2010, the Company sold its remaining 15% interest in HAECO to Swire Pacific for HK$2,620 million. The disposal constituted a related party transaction as the Company is an associate of Swire Pacific.

5. Operating profit

	Six months ended 30th June	
	2011 HK$M	2010 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**958**	942
– owned	**2,120**	2,179
Amortisation of intangible assets	**20**	16
Operating lease rentals		
– land and buildings	**358**	334
– aircraft and related equipment	**1,201**	1,155
– others	**15**	12
Net provision for impairment of aircraft and related equipment	**–**	9
Cost of stock expensed	**1,043**	914
Exchange differences, net	**(291)**	(48)
Auditors' remuneration	**4**	4
Net (gains)/losses on financial assets and liabilities classified as held for trading	**(209)**	212
Net losses/(gains) on financial assets and liabilities designated as at fair value through profit and loss	**225**	(49)
Income from unlisted investments	**(7)**	(19)

6. Net finance charges

	Six months ended 30th June	
	2011 HK$M	2010 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**335**	377
– interest income on related security deposits, notes and bonds	**(158)**	(171)
	177	206
– bank loans and overdrafts	**73**	73
– other loans wholly repayable within five years	**24**	29
	274	308
Income from liquid funds:		
– funds with investment managers and other liquid investments	**(130)**	(81)
– bank deposits and other receivables	**(32)**	(24)
	(162)	(105)
Fair value change:		
– obligations under finance leases designated as at fair value through profit and loss	**225**	(49)
– financial derivatives	**(23)**	408
	202	359
	314	562

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

7. Taxation

	Six months ended 30th June	
	2011 HK$M	2010 HK$M
Current tax expenses		
– Hong Kong profits tax	**49**	43
– overseas tax	**155**	114
– under/(over) provision for prior years	**12**	(54)
Deferred tax		
– origination and reversal of temporary differences	**229**	359
	445	462

Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) 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 the status of negotiations (see note 20(d) to the accounts).

8. Other comprehensive income

	Six months ended 30th June	
	2011 HK$M	2010 HK$M
Cash flow hedges		
– recognised during the period	**264**	(243)
– transferred to profit and loss	**311**	502
– deferred tax recognised	**(56)**	(25)
Revaluation of available-for-sale financial assets		
– recognised during the period	**(17)**	(30)
– transferred to profit and loss	**–**	(263)
Share of other comprehensive income of associates	**92**	17
Exchange differences on translation of foreign operations	**292**	77
Other comprehensive income for the period	**886**	35

9. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the owners of Cathay Pacific of HK$2,808 million (2010: HK$6,840 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2010: 3,934 million) shares.

10. Dividends

The Directors have declared an interim dividend of HK¢18 per share (2010: HK¢33 per share) for the period ended 30th June 2011. This interim dividend which totals HK$708 million (2010: HK$1,298 million) will be paid on 3rd October 2011 to shareholders registered at the close of business on the record date, being Friday, 9th September 2011. Shares of the Company will be traded ex-dividend as from Wednesday, 7th September 2011. This interim dividend has not been recognised as a liability at the balance sheet date.

The register of members will be closed on Friday, 9th September 2011, during which day no transfer of shares will be effected. In order to qualify for entitlement to the interim dividend, 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, 8th September 2011.

11. Fixed assets

	Aircraft and related equipment HK$M	Other equipment HK$M	Buildings HK$M	Building under construction HK$M	Total HK$M
Cost					
At 1st January 2011	**110,251**	**3,420**	**5,257**	**1,920**	**120,848**
Exchange differences	**3**	–	–	–	**3**
Additions	**5,139**	**103**	**135**	**1,114**	**6,491**
Transfer to aircraft and related equipment held for sale	**(1,172)**	–	–	–	**(1,172)**
Disposals	**(1,583)**	**(11)**	–	–	**(1,594)**
At 30th June 2011	**112,638**	**3,512**	**5,392**	**3,034**	**124,576**
Accumulated depreciation					
At 1st January 2011	**49,881**	**2,412**	**2,443**	–	**54,736**
Charge for the period	**2,890**	**96**	**92**	–	**3,078**
Transfer to aircraft and related equipment held for sale	**(416)**	–	–	–	**(416)**
Disposals	**(843)**	**(11)**	–	–	**(854)**
At 30th June 2011	**51,512**	**2,497**	**2,535**	–	**56,544**
Net book value					
At 30th June 2011	**61,126**	**1,015**	**2,857**	**3,034**	**68,032**
At 31st December 2010	60,370	1,008	2,814	1,920	66,112

Fixed assets at 30th June 2011 include leased assets of HK$29,176 million (31st December 2010: HK$29,012 million).

12. Intangible assets

	Goodwill HK$M	Computer systems HK$M	Total HK$M
Cost			
At 1st January 2011	**7,666**	**981**	**8,647**
Additions	**–**	**218**	**218**
At 30th June 2011	**7,666**	**1,199**	**8,865**
Accumulated amortisation			
At 1st January 2011	**–**	**643**	**643**
Charge for the period	**–**	**20**	**20**
At 30th June 2011	**–**	**663**	**663**
Net book value			
At 30th June 2011	**7,666**	**536**	**8,202**
At 31st December 2010	7,666	338	8,004

13. Investment in associates

	30th June 2011 HK$M	31st December 2010 HK$M
Share of net assets		
– listed in Hong Kong	**10,249**	8,882
– unlisted, net of impairment	**2,310**	373
Goodwill	**3,959**	3,671
	16,518	12,926

During the period, the Group invested HK$1,989 million in an unlisted associate.

14. Long-term liabilities

	30th June 2011		31st December 2010	
	Current HK$M	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	**7,619**	**8,428**	5,793	11,193
Obligations under finance leases	**2,909**	**20,282**	2,911	19,732
	10,528	**28,710**	8,704	30,925

15. Other long-term payables

Other long-term payables include retirement benefit obligations and the long-term portion of derivative financial liabilities.

16. Trade, other receivables and other assets

	30th June 2011 HK$M	31st December 2010 HK$M
Trade debtors	**6,290**	5,904
Derivative financial assets – current portion	**3,526**	2,349
Other receivables and prepayments	**3,105**	2,766
Due from associates	**21**	46
Aircraft and related equipment held for sale	**1,124**	368
	14,066	11,433

	30th June 2011 HK$M	31st December 2010 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**6,228**	5,853
One to three months overdue	**55**	45
More than three months overdue	**7**	6
	6,290	5,904

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

17. Liquid funds

	30th June 2011 HK$M	31st December 2010 HK$M
Short-term deposits and bank balances	**4,790**	8,276
Short-term deposits maturing beyond three months when placed	**551**	551
Funds with investment managers		
– debt securities listed outside Hong Kong	**10,131**	11,722
– bank deposits	**9**	13
Other liquid investments		
– debt securities listed outside Hong Kong	**1,492**	1,632
– bank deposits	**1,668**	2,004
	18,641	24,198

Included in other liquid investments are bank deposits of HK$1,668 million (31st December 2010: HK$1,856 million) and debt securities of HK$1,492 million (31st December 2010: HK$1,632 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

18. Trade and other payables

	30th June 2011 HK$M	31st December 2010 HK$M
Trade creditors	**6,814**	6,211
Derivative financial liabilities – current portion	**1,420**	1,391
Other payables	**8,477**	7,779
Due to associates	**63**	37
Due to other related companies	**242**	351
Bank overdrafts – unsecured	**1**	4
	17,017	15,773

	30th June 2011 HK$M	31st December 2010 HK$M
Analysis of trade creditors by age:		
Current	**6,632**	6,039
One to three months overdue	**170**	161
More than three months overdue	**12**	11
	6,814	6,211

19. Share capital

During the period under review, the Group did not purchase, sell or redeem any of its shares. At 30th June 2011, 3,933,844,572 shares were in issue (31st December 2010: 3,933,844,572 shares).

20. 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 2011 HK$M	31st December 2010 HK$M
Authorised and contracted for	**92,458**	75,290
Authorised but not contracted for	**11,377**	11,958
	103,835	87,248

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

	30th June 2011 HK$M	31st December 2010 HK$M
Associates	**490**	62
Staff	**200**	200
	690	262

20. Commitments and contingencies (continued)

(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 outcomes 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 and proceedings with regard to its air cargo operations by the competition authorities of various jurisdictions, including the European Union, Canada, Australia, Switzerland, Korea and New Zealand. The Company has been cooperating with the authorities in their investigations and, where applicable, vigorously defending itself. The investigations and proceedings are focused on issues relating to pricing and competition. The Company is represented by legal counsel in connection with these matters.

In December 2008, the Company received a Statement of Claim from the New Zealand Commerce Commission with regard to the Company's air cargo operations. The Company, with the assistance of legal counsel, has responded. In May – June 2011, the first stage trial in this matter was heard in the Auckland High Court.

In July 2009, the Company received an Amended Statement of Claim from the Australian Competition & Consumer Commission with regard to the Company's air cargo operations. The Company, with the assistance of legal counsel, has responded.

In May 2010, the Korean Fair Trade Commission ("KFTC") announced it will fine several airlines, including Cathay Pacific, for their air cargo pricing practices. In November 2010, KFTC issued a written decision and Cathay Pacific's fine was KRW 5.35 billion (equivalent to HK$36 million at the exchange rate current as of the date of the announcement). Cathay Pacific has filed an appeal in the Seoul High Court challenging the KFTC's decision in December 2010.

On 9th November 2010, the European Commission announced that it had issued a decision in its airfreight investigation finding that, amongst other things, the Company and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57,120,000 (equivalent to HK$618 million at the exchange rate current as of the date of the announcement) on the Company. The Company has filed an appeal with the General Court of the European Union in January 2011.

20. Commitments and contingencies (continued)

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

The investigations, proceedings and civil actions are ongoing and the outcomes are subject to uncertainties. The Company is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with accounting policy 19 set out on page 51 in the 2010 Annual Report.

21. Financial risk management

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

22. Event after the reporting period

In August 2011, agreements were entered into under which a wholly owned subsidiary of the Company agreed to purchase four Boeing 777-300ER aircraft and eight Boeing 777-200F freighters. The catalogue price of these aircraft is approximately HK$25,600 million. The actual purchase price of the aircraft, which was determined after arm's length negotiations between the parties, is lower than the catalogue price.

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 to 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 to 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.

The 2011 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

DIRECTORS' PARTICULARS

Changes in the particulars of the Directors are set out as follows:

1. Tony Tyler resigned as a Director and Chief Executive of the Company and as Chairman of Hong Kong Dragon Airlines Limited with effect from 31st March 2011.
2. John Slosar was appointed as Chief Executive of the Company and as Chairman of Hong Kong Dragon Airlines Limited with effect from 31st March 2011.
3. Ivan Chu was appointed as a Director and Chief Operating Officer of the Company with effect from 31st March 2011.
4. Zhang Lan resigned as a Director of the Company with effect from 1st June 2011.
5. Zhao Xiaohang was appointed as a Director of the Company with effect from 1st June 2011.

DIRECTORS' INTERESTS

At 30th June 2011, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following beneficial interest (all being personal interest) in the shares of Cathay Pacific Airways Limited:

	No. of shares	Percentage of issued capital (%)
Ian Shiu	1,000	0.00003

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 as at 30th June 2011 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	2,909,445,797	73.96	Attributable interest [(a)]
2. China National Aviation Holding Company	2,909,445,797	73.96	Attributable interest [(b)]
3. Swire Pacific Limited	2,909,445,797	73.96	Attributable interest [(a)]
4. John Swire & Sons Limited	2,909,445,797	73.96	Attributable interest [(c)]

Note: At 30th June 2011:

(a) Under Section 317 of the SFO, each of Air China, China National Aviation Company Limited ("CNAC") and Swire Pacific, being a party to the Shareholders' Agreement in relation to the Company dated 8th June 2006, was deemed to be interested in a total of 2,909,445,797 shares of the Company, comprising:

(i) 1,729,685,810 shares directly held by Swire Pacific;

(ii) 1,179,759,987 shares indirectly held by Air China and its subsidiaries CNAC, Super Supreme Company Limited and Total Transform Group Limited, comprising the following shares held by their wholly owned subsidiaries: 288,596,335 shares held by Angel Paradise Ltd., 280,078,680 shares held by Custain Limited, 191,922,273 shares held by Easerich Investments Inc., 189,976,645 shares held by Grand Link Investments Holdings Ltd., 207,376,655 shares held by Motive Link Holdings Inc. and 21,809,399 shares held by Perfect Match Assets Holdings Ltd.

(b) China National Aviation Holding Company is deemed to be interested in a total of 2,909,445,797 shares of the Company, in which its subsidiary Air China is deemed interested.

(c) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,909,445,797 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 40.95% of the issued capital and approximately 57.74% of the voting rights.

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