Cathay Pacific

Cathay Pacific Airways Limited

Stock Code: 00293

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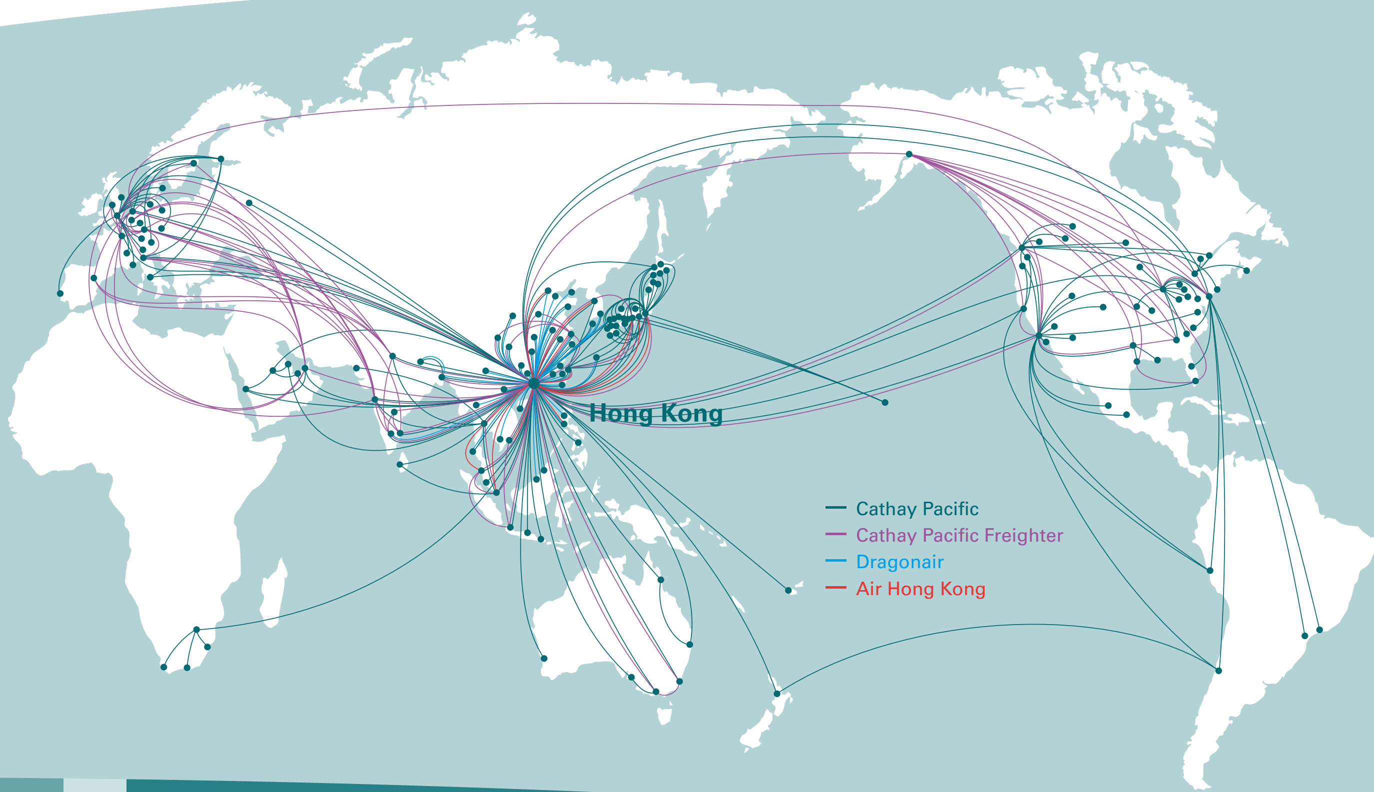
2012
Interim Report



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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 is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 167 destinations in 42 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 fleet of 135 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 had another 90 new aircraft due for delivery up to 2019 as at 30th June 2012. The airline is also building its own cargo terminal in Hong Kong which is expected to begin operations in early 2013.

Hong Kong Dragon Airlines Limited ("Dragonair") is a regional airline registered and based in Hong Kong. It is a wholly owned subsidiary of Cathay Pacific and operates 35 aircraft on scheduled services to 38 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 19.53% 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 is also the majority shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in the Asian region.

Cathay Pacific and its subsidiaries employ some 29,800 people worldwide (more than 22,000 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 800 destinations worldwide. Dragonair is an affiliate member of **one**world.

Financial and Operating Highlights

GROUP FINANCIAL STATISTICS

		2012	2011	
		Six months ended 30th June		Change
Results				
Turnover	*HK$ million*	**48,861**	46,791	**+4.4%**
(Loss)/profit attributable to owners of Cathay Pacific	*HK$ million*	**(935)**	2,808	**-133.3%**
(Loss)/earnings per share	*HK cents*	**(23.8)**	71.4	**-133.3%**
Dividend per share	*HK$*	**–**	0.18	**-100.0%**
(Loss)/profit margin	*%*	**(1.9)**	6.0	**-7.9%pt**
		30th June	31st December	
Financial position				
Funds attributable to owners of Cathay Pacific	*HK$ million*	**53,385**	55,809	**-4.3%**
Net borrowings	*HK$ million*	**29,552**	23,738	**+24.5%**
Shareholders' funds per share	*HK$*	**13.6**	14.2	**-4.2%**
Net debt/equity ratio	*Times*	**0.55**	0.43	**+0.12 times**

OPERATING STATISTICS – CATHAY PACIFIC AND DRAGONAIR

		2012	2011	
		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	*Million*	**12,944**	12,846	**+0.8%**
Available seat kilometres ("ASK")	*Million*	**65,351**	61,136	**+6.9%**
Passengers carried	*'000*	**14,312**	13,176	**+8.6%**
Passenger load factor	*%*	**80.1**	79.3	**+0.8%pt**
Passenger yield	*HK cents*	**66.1**	65.3	**+1.2%**
Cargo and mail carried	*'000 tonnes*	**754**	836	**-9.8%**
Cargo and mail load factor	*%*	**64.3**	68.4	**-4.1%pt**
Cargo and mail yield	*HK$*	**2.41**	2.42	**-0.4%**
Cost per ATK (with fuel)	*HK$*	**3.72**	3.35	**+11.0%**
Cost per ATK (without fuel)	*HK$*	**2.18**	1.94	**+12.4%**
Aircraft utilisation	*Hours per day*	**12.0**	12.3	**-2.4%**
On-time performance	*%*	**76.8**	83.1	**-6.3%pt**

Chairman's Letter

The Cathay Pacific Group reported an attributable loss of HK$935 million for the first six months of 2012. This compares to the profit of HK$2,808 million in the first half of 2011. Loss per share was HK23.8 cents as compared to the earnings per share of HK71.4 cents in 2011. Turnover for the period rose by 4.4% to HK$48,861 million.

In May 2012 Cathay Pacific issued a trading statement to the Hong Kong Stock Exchange to the effect that its interim results would be disappointing. That proved to be the case. In the first half of 2012, Cathay Pacific's core business was significantly affected by the persistently high price of jet fuel, passenger yields coming under pressure and weak air cargo demand. These factors are common to the aviation industry as a whole. Airlines around the world are being adversely affected by the current business environment. Our profits from associated companies, including Air China, also showed a marked decline.

In response to these challenges, we introduced measures designed to protect our business. These included schedule changes and capacity reductions, the withdrawal from service of older, less fuel-efficient aircraft, a recruitment freeze and the introduction of voluntary unpaid leave for cabin crew. At the same time we kept our network intact and have not allowed cost reductions to compromise our brand or the quality of our service. We also continued with our major investments in new aircraft and new products, inflight and on the ground, and with the building of our own cargo terminal at Hong Kong International Airport. Such investments will benefit our business in the long term.

Fuel is our most significant cost. Fuel prices remained historically high during the period (although they decreased significantly at the end of the period) and this had a major impact on our operating results. In the first six months of 2012, the Group's fuel costs (disregarding the effect of fuel hedging) increased by 6.5% compared to the same period in 2011. Fuel accounted for 41.6% of our total operating costs. Managing the risk associated with high and volatile fuel prices remains a key challenge. Our fuel hedging programme helps to mitigate the impact of fuel price fluctuations. However, with the fuel price remaining high for the past two years, our realised profit from hedging activities in the first half of 2012 fell by 59.4% compared to the same period in 2011.

In the first six months of 2012, our passenger business was affected by pressure on yields against the background of increased fuel prices and higher operating costs. Revenue for the period was HK$34,713 million, representing an increase of 9.2% compared to the same period in 2011. Capacity increased by 6.9%. We carried a total of 14.3 million passengers in the first six months, which is a rise of 8.6% compared to the same period in 2011. The load factor rose by 0.8 percentage points. Yield increased by 1.2% to HK66.1 cents. The premium class load factor was adversely affected, with employees of major corporations travelling less. The high cost of fuel made it more difficult to operate profitably, particularly on long-haul routes operated by older, less fuel-efficient, Boeing 747-400 and Airbus A340-300 aircraft.

Our cargo business was affected by continued weak demand in major markets. Cargo revenue for the first half of 2012 was down by 7.6% to HK$11,897 million compared to the same period in 2011. Yield was down by 0.4% to HK$2.41. Capacity was down by 4.3%. The load factor was down by 4.1 percentage points to 64.3%. Demand for shipments from our two key markets, Hong Kong and Mainland China, was well below expectations, though the introduction of new hi-tech consumer electronics products in March caused a temporary improvement. Capacity was adjusted in line with demand. On the positive side, we continued to develop new markets where demand warranted doing so, introducing freighter services to Zhengzhou in Mainland China in March and to Hyderabad in India in May.

Six Airbus A350-900 aircraft were ordered in January. In August, we agreed to acquire 10 Airbus A350-1000 aircraft and to convert 16 previously ordered Airbus A350-900 aircraft into Airbus A350-1000 aircraft. The Cathay Pacific Group will take delivery of 19 aircraft in 2012. This will improve the operational efficiency of the fleet. Nine of these aircraft were delivered in the first six months of the year: two Airbus A320-200s, two Airbus A330-300s, four Boeing 777-300ERs and one Boeing 747-8F freighter. At 30th June 2012 we had 92 aircraft on order for delivery up to 2019. In view of their high operating costs when fuel prices are high, we intend to accelerate the retirement of our Boeing 747-400 passenger aircraft. Three of this fleet of 21 aircraft will be retired this year, five in 2013 and one in 2014. We withdrew three of our Boeing 747-400BCF converted freighters from service in order to reduce costs. One of these aircraft has since been retired from the fleet. The third of four Boeing 747-400BCF converted freighters being sold to Air China Cargo, our cargo joint venture with Air China, was transferred in July, leaving one aircraft remaining to be sold.

In May, we announced our intention to reduce some passenger services on transpacific routes. This will enable fuel-efficient Boeing 777-300ER aircraft to operate on routes currently served by older less fuel-efficient Boeing 747-400 aircraft. We remain committed nevertheless to maintaining our network and have increased some services in Asia, where demand is relatively robust and fuel accounts for a smaller portion of operating costs. Cathay Pacific added frequencies on routes to Singapore, Malaysia, Taiwan, Japan and Thailand in March. Dragonair added frequencies on routes to secondary cities in Mainland China. Dragonair also introduced or resumed flights to six destinations – Xi'an, Guilin, Clark, Jeju, Taichung and Chiang Mai – and will introduce flights to Kolkata and Haikou later in the year.

We continue to improve our products and services in the air and on the ground. In April we introduced a new premium economy class, with significantly better seats and service than those in economy class. By the end of June the new seats had been installed in 15 of our long-haul aircraft. By the end of 2013 the new seats are scheduled to have been installed in 86 aircraft. In April we started to introduce new long-haul economy class seats, which have been well received by passengers. We continued to install our popular new business class seat. By the end of June, they had been installed in 30 long-haul aircraft. In July, we were honoured to be named World's Best Business Class in the 2012 World Airline Awards organised by Skytrax. On the ground, refurbishment of the Level 7 business class lounge at The Wing in Hong Kong International Airport was completed in January 2012. Renovation of the first class lounge at The Wing is expected to be completed in the fourth quarter of 2012.

Air China remains a key strategic partner. In March we announced the establishment of a new ground-handling company, Shanghai International Airport Services Co., Limited. This joint venture between Cathay Pacific, Air China, the Shanghai Airport Authority and Shanghai International Airport Co. Ltd. will provide airport ground-handling services at Shanghai's two international airports, Pudong and Hongqiao.

Aviation will always be a volatile and challenging industry and our business will continue to be subject to factors, including economic fluctuations and fuel prices, which are beyond our control. The cost of fuel is the biggest challenge, although the recent reduction in the fuel price will, if sustained, provide welcome relief. We will continue to take whatever measures are necessary to protect the business, managing short-term difficulties while remaining committed to our long-term strategy. Our financial position remains strong and we are in a good position to deal with our current challenges. We will continue to invest in the future, using our core strengths – a superb team, a strong international network, exceptional standards of customer service, a strong relationship with Air China and our position in Hong Kong – to ensure the continued success of the Cathay Pacific Group.

Christopher Pratt
Chairman
Hong Kong, 8th August 2012

2012 Interim Review

The first six months of 2012 was a challenging period for the Cathay Pacific Group. High fuel prices, passenger yields coming under pressure and weak cargo demand had a significant adverse impact on operating results for the period. Despite these challenges, the Group remained focused on improving its products and services and enhancing its network where possible. We will continue to make long-term investments which demonstrate our commitment to developing Hong Kong's role as one of the world's leading international aviation hubs.

AWARD WINNING PRODUCTS AND SERVICES

- In February, Cathay Pacific began to install premium economy class cabins in its long-haul aircraft. The first aircraft with a new premium economy cabin installed entered service in April. Passenger feedback has been positive.

- By the end of June, premium economy cabins had been installed in 15 aircraft. By the end of the year, we expect to have installed the new cabins in 48 aircraft. The new cabins are expected to have been installed in 86 aircraft by the end of 2013.

- We are introducing a new long-haul economy class seat. These seats will be installed in all of our Boeing 777-300ER and long-haul Airbus A330-300 aircraft.

- The new economy class seat has a cradle mechanism designed to make passengers more comfortable when reclining. There is also a high-resolution touch-screen personal television. By the end of 2012, the new economy class seats are expected to have been installed in 42 aircraft.

- Our new long-haul business class seats were introduced in March 2011. They are expected to have been installed in 47 aircraft by the end of 2012. In July 2012, the quality of Cathay Pacific's business class product and service was recognised when the airline took the World's Best Business Class honour in the World Airline Awards organised by Skytrax.

- Work continued on the refurbishment of The Wing, Cathay Pacific's signature lounge at Hong Kong International Airport. The Level 7 business class lounge reopened in January 2012. The first class lounge is currently closed for refurbishment. The refurbishment of The Wing is expected to be completed in the fourth quarter of 2012.

- Cathay Pacific staff won three individual awards and one team award at the Customer Service Excellence Awards organised by the Hong Kong Association for Customer Service Excellence. The awards recognise outstanding acts of customer service and the development of a strong service culture in Hong Kong organisations.

- We won the top Corporate Award at the annual Hong Kong International Airport Customer Service Excellence Programme organised by the Airport Authority of Hong Kong. Two of our airport staff won a team award for an act of outstanding service.

- At the Cellars in the Sky Awards organised by Business Traveller magazine, Cathay Pacific won two awards: Most Improved Business Class Cellar and Best First Class Fortified Wine.

- Cathay Pacific won the Best Airline award at the National Luxury & Lifestyle Awards in London.

- Cathay Pacific won in the category for Technology in the 2012 Airline Business Strategy Awards in the UK. The honour was awarded for the airline's work on its e-Enabled Aircraft programme.

- Dragonair has been collaborating on inflight menus with well known hotels and restaurants. Dishes from the Man Ho Chinese restaurant at the JW Marriott Hotel in Hong Kong and from restaurants at the Mandarin Oriental Hotel in Hong Kong were introduced in April. Shanghainese and Cantonese dishes from The Langham Xintiandi's Ming Court restaurant and European dishes from the Fairmont Peace Hotel's The Cathay Room were introduced in May.

HUB DEVELOPMENT

- The Cathay Pacific Group is deeply committed to the long-term development of Hong Kong International Airport as a premier international hub for passenger and cargo traffic. We continue to strengthen our networks and to improve connections available from Hong Kong.

- Cathay Pacific supports the move to build a third runway at Hong Kong International Airport. The airline is pleased that the Government of the Hong Kong Special Administrative Region has given in-principle approval for the project and that work on the environmental impact assessment and design details has now begun.

- Economic activity in Asia remained generally robust in the first half of 2012. As a result, our intra-Asia business – both passenger and cargo – held up relatively well. In view of this, we reinforced our regional network with additional frequencies and new destinations.

- Flights were added on the Taipei, Kuala Lumpur, Penang, Bangkok, Nagoya and Singapore routes in March. There are now nine flights a day to Singapore. A fifth daily direct flight was added on the Seoul route in July, taking the total of six flights per day. Chennai will move from four flights a week to a daily service in September.

- Dragonair added more flights on two secondary routes in Mainland China, Ningbo and Qingdao, increased its Okinawa service from two to four flights a week and used larger aircraft for some flights on the Xiamen, Guangzhou and Kunming routes.

- Dragonair is adding eight destinations to its network in 2012. It resumed services to Xi'an in April and to Guilin and Taichung in May. Services to Jeju and Clark were introduced in May and a service to Chiang Mai was introduced in July. Later in the year, Dragonair will launch services to Kolkata and Haikou.

- The high cost of fuel has made it difficult to operate long-haul services profitably. As a temporary measure, Cathay Pacific will reduce the frequency of flights on the New York, Los Angeles and Toronto routes from September. This will enable fuel-efficient Boeing 777-300ER aircraft to operate on routes (for example San Francisco and Paris) currently served by older less fuel-efficient Boeing 747-400 aircraft.

- In March, Cathay Pacific introduced a cargo service to Zhengzhou, a centre for the manufacture of hi-tech consumer electronics products in Henan Province in Mainland China. In May, Cathay Pacific introduced a cargo service to Hyderabad in India.

FLEET DEVELOPMENT

- As part of its commitment to continue to upgrade and modernise the fleet, the Cathay Pacific Group had 92 new aircraft on order for delivery up to 2019 as at 30th June 2012.

- Six Airbus A350-900 aircraft were ordered in January. In August, we agreed to acquire 10 Airbus A350-1000 aircraft and to convert 16 previously ordered Airbus A350-900 aircraft into Airbus A350-1000 aircraft.

- In the first half of 2012, Cathay Pacific took delivery of seven new aircraft: four Boeing 777-300ERs, two Airbus A330-300s and one Boeing 747-8F freighter. One more Boeing 747-8F freighter was delivered in July. A total of eight new aircraft will be delivered in the second half of 2012.

- Dragonair took delivery of two new Airbus A320-200s and received one Airbus A330-300 from the Cathay Pacific fleet in the first half of 2012. Two more Airbus A320-200s will be delivered in the latter part of 2012. The airline currently has an all-Airbus fleet of 35 aircraft.

- In response to the high cost of jet fuel, Cathay Pacific will speed up the retirement of its older, less fuel-efficient Boeing 747-400 passenger aircraft. Three will be retired from the fleet in the second half of 2012. By early 2014 the current fleet of 21 aircraft will have been reduced to 12.

- The introduction of the new Boeing 747-8F freighters has resulted in a significant improvement in the operating economics of our ultra-long-haul cargo services. Three more aircraft of this type will be delivered before the end of 2012, by which time we will be operating eight aircraft of this type.

- We have withdrawn three of our Boeing 747-400BCF converted freighters from service in order to reduce costs and one of these aircraft has since been retired from the fleet.

- The third of four Boeing 747-400BCF converted freighters being sold to our cargo joint venture with Air China was transferred in July, leaving one aircraft remaining to be sold.

- A new Boeing 747-8F flight simulator – the first in Asia – was delivered to the Cathay Pacific Flight Training Centre at our headquarters in Hong Kong in July. The simulator will be ready for training in September. A new Boeing 777-300ER simulator, the airline's second of the type, will be delivered later in the year.

ADVANCES IN TECHNOLOGY

- In February, Cathay Pacific and Dragonair introduced a new reservations system. A new departure control system will be introduced in 2013.

- In January, we introduced mobile boarding passes for flights from Hong Kong. Passengers can check in online and can receive their boarding passes on their mobile devices by text message or email. The service is currently available for flights from Auckland, Hong Kong, Vancouver and Taipei and will be extended to flights from other Cathay Pacific and Dragonair destinations.

- We have entered into a contract for the conversion of certain cockpit documents from paper form to electronic form. This is intended to improve the efficiency of our flight operations.

PARTNERSHIPS

- In March, airberlin joined the **one**world alliance as a full member and NIKI, an Austrian airline which is a member of the airberlin group, joined as an affiliate member.
- In May, **one**world alliance members, including Cathay Pacific, won every top award in the Loyalty Programmes category of the FlyerTalk Awards.
- Malaysia Airlines is expected to become a full member of **one**world by the end of 2012.
- SriLankan Airlines is expected to join **one**world in 2013. Cathay Pacific will sponsor the carrier's entry into the alliance.
- Cathay Pacific added its code on Dragonair flights to Xi'an in April, Guilin and Jeju in May, Taipei and Kaohsiung in June.

ENVIRONMENT

- Cathay Pacific continues to work with organisations like the International Civil Aviation Organisation with a view to increasing awareness of climate change and to developing appropriate solutions for the aviation industry.
- While Cathay Pacific supports emissions trading as one of the interim solutions to reduce aviation's emissions, we do not support the imposition of the European Union's Emissions Trading Scheme (EU ETS) to carriers based outside of Europe. We have been calling for aviation emissions to be regulated under a global sectoral scheme under the UN's International Civil Aviation Organisation. However, despite our strong opposition, we have been working in full compliance with the EU ETS regulation. As required under the scheme, our emissions data were externally verified. In March, we submitted our emissions report for 2011 to the UK Environment Agency.
- We have purchased carbon credits from projects in Guangdong Province in Mainland China as part of our "FLY *greener*" carbon offset programme. This programme enables our passengers to offset the environmental impact of their travel.
- Our Sustainable Development Report 2011 was published on a dedicated, interactive website in June. The 2011 report, entitled "En route to Sustainability", covers our financial, environmental and social performance in 2011, and includes sections under the five priority areas of our sustainable development strategy: Operating Our Flights; Managing Our Infrastructure; Interacting with Customers; Working with Our Supply Chain; and Investing in People and Communities.
- For the fourth consecutive year, our sustainable development report was prepared according to the Global Report Initiative (GRI) Guidelines, at Application Level A+.
- Cathay Pacific formalised its sustainable food policy in February. Under the policy certain unsustainably produced food items are not served inflight or at company functions.
- In March, Cathay Pacific participated in "Earth Hour", an annual event sponsored by WWF Hong Kong. We switched off all non-essential lighting in our buildings and on our billboards.
- We were included on the FTSE4Good Index Series for the third year. The index is comprised of companies that meet globally recognised corporate responsibility standards and is intended to facilitate investment in those companies.

- In May, we participated in the Airport Authority of Hong Kong's "World's Greenest Airport Pledging Ceremony", in order to offer our continued support for the airport's carbon reduction efforts.

- In May, Cathay Pacific put a video about its sustainability efforts in its inflight entertainment systems.

- Cathay Pacific became a member of the Sustainable Travel Leadership Network in May. This global non-profit organisation promotes sustainable development through responsible travel by working with travellers, businesses and destinations.

CONTRIBUTION TO THE COMMUNITY

- In May, Cathay Pacific received the 10 Consecutive Years Caring Company Logo 2002-2012 from the Hong Kong Council of Social Service. The award recognises the airline's commitment to caring for the well-being of the community, its employees and the environment. Dragonair was named a Caring Company for the seventh consecutive year.

- This year, 100 students joined the fifth Cathay Pacific "I Can Fly" programme. Over a period of six months, the students take part in activities designed to increase their knowledge of aviation and to foster a commitment to the community.

- In April, our team in Thailand organised a local version of the "I Can Fly" programme for 15 students. Local versions of the programme have previously been organised in the United States and Canada.

- The "CX Volunteers" staff team continued to help the Hong Kong community. Their activities included the "English on Air" programme, visits to the elderly before the Chinese New Year, and organising the participation of a team of young people in a charity pedal kart event.

- Cathay Pacific continued to support UNICEF through its "Change for Good" inflight fundraising programme. Passengers donated more than HK$12.9 million to the programme in 2011. Since the "Change for Good" programme was launched in 1991, the airline has contributed more than HK$120 million to help to improve the lives of disadvantaged children around the world.

- Staff from Cathay Pacific joined a trip to Laos organised by UNICEF. They were able to see how funds from "Change for Good" are put to good use in improving people's lives.

- Cathay Pacific continues to lend its support to large-scale events designed to improve Hong Kong's attractiveness as a place to live in and to visit. In February, the airline was the title sponsor of the annual International Chinese New Year Night Parade for the 14th consecutive year. In March, we co-sponsored the ever-popular Hong Kong Sevens rugby event.

- Staff from the airline continue to support mentally and physically disadvantaged children in Hong Kong through the work of the Sunnyside Club. The Club benefited from a donation of HK$86,630 following a sale of toiletries from Cathay Pacific's first and business class cabins.

- Cathay Pacific has started to provide funds through the Cathay Pacific Charitable Fund to support staff in their charitable endeavours. All Cathay Pacific Group staff are eligible to apply for funding.

- The Dragonair Youth Aviation Academy was established in 2011 to offer young persons in Hong Kong the opportunity to learn about aviation in Hong Kong and to encourage them to work in aviation. In conjunction with the Hong Kong Air Cadet Corps, the Academy organises the Dragonair Aviation Certificate Programme. Each of the 24 participants in the 2012 programme was mentored by a Dragonair pilot. More than 30% of participants in the programme have started to work in aviation. In April, the Academy organised a workshop for university students in Hong Kong in order to give them information about cabin crew careers.

- Since 2004, Dragonair has operated the "Change for Conservation" inflight fundraising campaign. HK$8.4 million has been raised to protect watershed areas in northwest Yunnan in Mainland China and to help to develop economic opportunities alternatives for the people there.

COMMITMENT TO STAFF

- At the end of June, the Cathay Pacific Group employed some 29,800 people worldwide. More than 22,000 of these staff are based in Hong Kong. Dragonair employs around 2,900 staff.

- The Cathay Pacific Group continues to recruit new pilots and cabin crew. Cathay Pacific expects to recruit more than 600 cabin crew and 280 pilots in 2012. Dragonair expects to recruit about 460 cabin crew and 60 pilots in 2012.

- There is currently a freeze on the recruitment of ground staff, except for those staff who are critical to operations. Cabin crew may take voluntary unpaid leave. These measures have been taken in response to the current challenging business environment.

- In the first half of 2012, 34 cadets graduated from Cathay Pacific's cadet pilot programme. Eighty-nine cadets are currently being trained on the Programme. Sixty-two former cadets are flying as captains with the airline. Dragonair runs its own cadet pilot scheme and plans to recruit about 30 cadets in 2012.

- We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.

- Through the "We Suggest" internal ideas programme, Cathay Pacific staff can make suggestions for improving our business. In conjunction with the Environmental Protection Department of the Government of the Hong Kong Special Administrative Region, suggestions for improving sustainability are requested under the programme.

- The eighth annual Betsy Awards took place in July. These internal awards honour staff who go beyond the call of duty to assist passengers.

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

FLEET PROFILE*

	Number as at 30th June 2012															
		Leased			Firm orders				Expiry of operating leases							
Aircraft type	Owned	Finance	Operating	**Total**	'12	'13	'14 and beyond	**Total**	'12	'13	'14	'15	'16	'17 and beyond	Options	Purchase rights
Aircraft operated by Cathay Pacific:																
A330-300	11	14	9	**34**	4	5	8	**17**				2	1	6		
A340-300	6	5		**11**												
A350-900							38[a]	**38**							10[b]	
747-400	17		4	**21**					1			2	1			
747-400F	3	3		**6**												
747-400BCF	3[c]		4[d]	**7**						2	1			1		
747-400ERF		6		**6**												
747-8F		5		**5**	3	2		**5**								
777-200	5			**5**												
777-200F							8	**8**								
777-300	5	7		**12**												
777-300ER	4	10	14	**28**	1	8	13[e]	**22**						14		20[f]
Total	54	50	31	**135**	8	15	67	**90**	1	2	1	4	2	21	10	20
Aircraft operated by Dragonair:																
A320-200	5		8	**13**	2[g]			**2**				2	2	4		
A321-200	2		4	**6**								2	2			
A330-300	4	1	11	**16**						4	3	1	2	1		
Total	11	1	23	**35**	2			**2**		4	3	5	6	5		
Aircraft operated by Air Hong Kong:																
A300-600F	2	6		**8**												
747-400BCF			3	**3**									1	2		
Total	2	6	3	**11**									1	2		
Grand total	**67**	**57**	**57**	**181**	**10**	**15**	**67**	**92**	**1**	**6**	**4**	**9**	**9**	**28**	**10**	**20**

* Includes parked aircraft. This profile does not reflect aircraft movements after 30th June 2012.

(a) Including two aircraft on 12-year operating leases. In August 2012 the existing order for 16 of these aircraft was converted into an order for 16 Airbus A350-1000 aircraft.
(b) These options were exercised in August 2012 but in respect of 10 Airbus A350-1000 aircraft (instead of 10 Airbus A350-900 aircraft) to be delivered by 2020.
(c) One aircraft was sold to Air China Cargo in July 2012 and one more aircraft is expected to be sold to Air China Cargo. One aircraft was parked in May 2012.
(d) One aircraft was parked in July 2012.
(e) One aircraft firm order was moved forward from 2014 to 2013 in July 2012.
(f) Purchase rights for aircraft to be delivered by 2017.
(g) Two aircraft on 10-year operating leases will be delivered in November 2012 and December 2012.

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. It operates express cargo services for DHL Express.
- The airline operates a fleet of eight owned Airbus A300-600F freighters, three Boeing 747-400BCF converted freighters dry-leased from Cathay Pacific and one wet-leased Boeing 727 freighter.
- Air Hong Kong operates six flights per week to Bangkok, Seoul, Shanghai, Singapore, Taipei and Tokyo, and five flights per week to Beijing, Manila, Nagoya, Osaka, Ho Chi Minh City and Penang (via Bangkok).
- On-time performance was 89%, compared with a target of 95%.
- Capacity increased by 20% compared with the first half of 2011. The load factor decreased by 5 percentage points but yield improved by 4%.
- Air Hong Kong achieved an increase in profit in the first half of 2012 compared with the first half of 2011.

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

- CPCS, a wholly owned subsidiary, is the principal flight kitchen in Hong Kong.
- CPCS reported an increase in profit in the first half of 2012 compared to the first half of 2011 mainly due to growth in the number of meals produced.
- Outside Hong Kong, profits increased in Taipei and Canada and fell in Ho Chi Minh City and Cebu.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services in Hong Kong. It provides services to 32 airlines, including Cathay Pacific and Dragonair.
- In the first half of 2012, HAS had 54% and 24% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- The number of customers for passenger handling remained unchanged in the first half of 2012. The number of customers for ramp handling decreased from 33 to 32. Flights for which passenger handling was provided increased by 8% compared with the same period in 2011. Flights for which ramp handling was provided increased by 7% compared with the same period in 2011.
- The financial results for the first half of 2012 deteriorated compared to those of the first half of 2011. The deterioration primarily reflected cost increases and competition.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 19.53% interest, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.
- At 30th June 2012, Air China operated 195 domestic and 90 international (including regional) routes to 30 countries and regions, including 46 overseas cities, four regional cities and 96 domestic cities.

- The Group's share of Air China's results is based on its accounts drawn up three months in arrear and consequently the 2012 interim results include Air China's results for the six months ended 31st March 2012.

- The Group recorded a decrease in profit from Air China's results in the first half of 2012. This primarily reflected reduced demand, increased fuel costs and unfavourable exchange rate movements.

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.

- At 30th June 2012, Air China Cargo had a fleet of 10 Boeing 747-400F freighters. It operates scheduled freighter services to 11 countries and regions. It flies to five cities in Mainland China and 15 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 143 destinations.

- The Group recorded an increase in loss from Air China Cargo's results in the first half of 2012. This was mainly due to the weak demand in the air cargo markets.

Shanghai International Airport Services Co., Limited

- In March, Cathay Pacific announced the formation of a new ground handling company, Shanghai International Airport Services Co., Limited. This joint venture between Cathay Pacific, Air China, the Shanghai Airport Authority and Shanghai International Airport Co. Ltd. will provide airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport.

Review of Operations

PASSENGER SERVICES

Cathay Pacific and Dragonair carried a total of 14.3 million passengers in the first half of 2012. This represents an increase of 8.6% compared to the same period in 2011. The increase in passenger numbers over the period was ahead of the increase in capacity. There was a slight increase in the load factor, which rose by 0.8 percentage points to 80.1%. Passenger yield grew by 1.2% to HK66.1 cents in the first half of 2012. Revenue from passenger services grew by 9.2% while capacity increased by 6.9%.

Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair passenger services for the first half of 2012 were as follows:

	ASK (million)			Load factor (%)			Yield
	2012	2011	**Change**	**2012**	2011	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**5,605**	5,546	**+1.1%**	**77.3**	75.9	**+1.4%pt**	**+3.9%**
Southeast Asia	**8,612**	7,714	**+11.6%**	**80.3**	82.7	**-2.4%pt**	**+2.0%**
Southwest Pacific and South Africa	**9,482**	9,444	**+0.4%**	**75.2**	73.3	**+1.9%pt**	**+2.4%**
Europe	**10,812**	11,159	**-3.1%**	**84.0**	81.2	**+2.8%pt**	**+2.1%**
North Asia	**13,616**	12,445	**+9.4%**	**72.2**	69.7	**+2.5%pt**	**-1.4%**
North America	**17,224**	14,828	**+16.2%**	**87.4**	89.3	**-1.9%pt**	**-0.3%**
Overall	**65,351**	61,136	**+6.9%**	**80.1**	79.3	**+0.8%pt**	**+1.2%**

- Increased fuel prices significantly affected the profitability of our passenger services, particular on long-haul routes operated by older, less fuel-efficient aircraft.
- The weakness of a number of key operating currencies relative to the Hong Kong dollar and the US dollar had a negative impact on revenues, particularly in the second quarter.
- Passenger growth was ahead of the increase in capacity.
- Despite careful revenue management, the pressure on economy class yields that began in the second half of 2011 continued in the first half of 2012. This was primarily a result of strong competition on key routes.
- Premium class demand was strong at the beginning of the year. However, as employees of major corporations started to travel less in response to economic uncertainty, there was a reduction in the number of premium class passengers.

- Capacity increased in the first quarter as new aircraft were brought into the fleet. Cathay Pacific and Dragonair added frequencies on regional routes. Dragonair added services to Xi'an in April, to Jeju, Guilin, Taichung and Clark in May and to Chiang Mai in July. Dragonair will introduce services to Kolkata and Haikou later in the year. Given the relative strength of Asian economies and continuing high demand for air travel in the region we will continue to strengthen our services in Asia.

- In May, we announced a reduction in frequencies on some long-haul routes in order to contain costs.

- Demand for leisure travel from Hong Kong was relatively healthy, particularly to Asian destinations. But, passengers are becoming more price-sensitive and are booking later. There was a drop in demand for corporate travel from Hong Kong. This adversely affected revenues, particularly from important routes for premium class travel such as those to New York and Singapore.

- We carried more people between Hong Kong and the Pearl River Delta region. But this business is subject to increasing competition.

- Business to and from Mainland China was generally strong during the first six months of 2012, particularly over Chinese New Year. Demand on the Beijing and Shanghai routes was consistently high. We strengthened services to a number of secondary cities and resumed services to Xi'an and Guilin. We will launch a service to Haikou later in the year.

- Our Taiwan services continued to be affected by the growth in cross-strait traffic and the reduction in traffic from Taipei to Hong Kong. Competition on the Taipei route has been increasing. Nevertheless, the demand for travel from Hong Kong to Taipei held up reasonably well and there was more connecting traffic from Europe. Dragonair resumed flights to Taichung in May.

- We saw good growth in demand on the Korea route in the first quarter, though the market has since softened and competition has increased. We introduced a Dragonair service to Jeju in May.

- Demand on the Japan routes was generally robust, but it was weaker on the Tokyo route than it was before the earthquake and tsunami in March 2011.

- The relative strength of the economies in Southeast Asian countries was reflected in robust passenger demand on routes to those countries except that premium class demand on the Singapore route showed weakness. The Philippines and Vietnam routes performed particularly well. Increased competition had some effect on yields.

- The Australia routes benefited from the strength of the mining industry in Western Australia and an increase in traffic from North Asia connecting to flights to Australia in Hong Kong. However, competition from Mainland China carriers increased. The New Zealand route was weak.

- Business was under pressure on the South Africa routes. There was more business and leisure traffic originating from Japan, but more airlines are flying direct to and from South Africa.

- The India routes benefited from the continued buoyancy of the Indian economy, but yields remain a concern. Later this year we will increase the frequency of flights to Chennai and Dragonair will launch a four-times-weekly service to Kolkata.

- The Middle Eastern routes were affected by strong competition, which put pressure on yields. We reduced the frequency of flights to Abu Dhabi and Bahrain in response to reduced demand.

- The economic instability in Europe had a significant effect on our business. Routes to Continental Europe were generally weak. The London route was relatively stronger, helped by stable demand from students and more robust premium class demand.

- Premium class revenues on the New York route were adversely affected by the state of the financial markets. Economy class load factors were strong on most United States routes. The Chicago route was weak during the winter months, but has since improved. Business on the Canada routes was affected by strong competition and there was a fall in yields.

CARGO SERVICES

The air cargo markets continue to be weak. In the first half of 2012, the tonnage carried by Cathay Pacific and Dragonair fell by 9.8% to 754,000 tonnes, with our two main markets, Hong Kong and Shanghai, both heavily affected by weak demand. Shipments to Europe were particularly weak. The high price of fuel made it hard to operate profitably on European and transpacific routes. We reduced capacity during the period, with the aim of trying to maintain load factors and yield. By comparison with the first half of 2011, capacity was down by 4.3%. The load factor fell by 4.1 percentage points to 64.3%. Yield was down by 0.4% to HK$2.41. Cargo revenue decreased by 10.2% to HK$10,441 million. Our cargo business is generally stronger in the second half of the year than in the first though the outlook for the remainder of 2012 is uncertain.

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for the first half of 2012 were as follows:

	ATK (million)			Load factor (%)			Yield
	2012	2011	**Change**	**2012**	2011	**Change**	**Change**
Cathay Pacific and Dragonair	**6,729**	7,031	**-4.3%**	**64.3**	68.4	**-4.1%pt**	**-0.4%**

- Demand for cargo shipments from our two main markets, Hong Kong and Shanghai, remained weak for most of the first half of 2012. The situation was exacerbated by strong competition. Demand was particularly weak on routes to Europe, where economic conditions have affected business and consumer confidence.

- There was a temporary recovery in demand in March when a lot of new hi-tech consumer electronics products were shipped from Mainland China. However, both tonnage and revenue for the month were lower than those of March 2011.

- We managed capacity in line with demand, reducing scheduled freighter services as necessary.

- In Mainland China, the shift of manufacturing, particularly of technology products, from coastal to central and western areas of the country continues. The air cargo market in the western part of Mainland China, where we launched services to Chongqing and Chengdu in late 2011, continues to mature. In March 2012, we began scheduled freighter services to Zhengzhou in Henan Province, in the central part of Mainland China.

- Revenue and tonnage on North Asian routes were lower. Market conditions were challenging, with aggressive competition from Korean, Taiwanese and Japanese carriers.

- Revenue and tonnage on Southeast Asia routes were higher. Demand for shipments into Mainland China was strong. Increased belly capacity in Cathay Pacific's passenger aircraft (as a result of increased frequencies) and in Dragonair's passenger aircraft (as a result of larger aircraft being used on some Mainland China routes) enabled us to benefit from the strong demand.

- Cathay Pacific is the biggest airfreight operator in India, but the market has become more competitive as other carriers shift capacity away from the weak European markets. This has put pressure on tonnage and yields. In May, we introduced a freighter service to Hyderabad and increased the number of flights on the Bengaluru route from two to three a week.

- Against the difficult economic background, cargo business to Europe and North America was poor. We significantly reduced capacity (by reducing frequencies) on routes to both continents.

- High fuel prices had a significant impact on the profitability of our cargo operations, particularly on ultra-long-haul routes.

- In the first half of 2012 we had five of the new Boeing 747-8F freighters operating on transpacific routes. A sixth aircraft was added to the fleet in July. Two more will arrive later in the year and the final two will arrive in 2013. These highly fuel-efficient aircraft have led to a significant improvement in the operating economics of our ultra-long-haul services.

- In May, we announced that we would take three Boeing 747-400BCF converted freighters out of service in order to reduce capacity in the short term. One of these aircraft has since been retired from the fleet.

- The third of four Boeing 747-400BCF converted freighters being sold to our cargo joint venture with Air China was transferred in July, leaving one aircraft remaining to be sold.

- Cargo is a cyclical business. While demand has been weak for some time, we believe that the market will recover at some stage and that Hong Kong will continue to play a leading role as an international airfreight hub. Cathay Pacific's commitment to its home base is demonstrated by its construction of a HK$5.9 billion cargo terminal at Hong Kong International Airport. The facility, which will be one of the biggest and most sophisticated of its kind, is expected to open in early 2013.

ASIA MILES

- Asia Miles is Cathay Pacific's and Dragonair's award-winning travel reward programme. It has more than four million members.

- Asia Miles has nearly 500 partners in nine categories, including airlines, hotels and major financial institutions. There are 20 airline partners, which together fly to over 1,000 destinations.

- There was a 1% increase in redemptions by Asia Miles members in the first half of 2012. More than 90% of Cathay Pacific flights carry passengers who have redeemed frequent flyer miles through the Asia Miles programme.

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 2011 Annual Report.

Financial Review

TURNOVER

	Group		Cathay Pacific and Dragonair	
	Six months ended 30th June		Six months ended 30th June	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Passenger services	**34,713**	31,774	**34,713**	31,774
Cargo services	**11,897**	12,870	**10,441**	11,628
Catering, recoveries and other services	**2,251**	2,147	**1,992**	1,813
Turnover	**48,861**	46,791	**47,146**	45,215

- Group passenger turnover increased 9.2% against a 6.9% increase in capacity. The increased turnover principally reflected an increase in capacity.
- Group cargo turnover decreased by 7.6%. Combined Cathay Pacific and Dragonair cargo turnover decreased by 10.2% against a 4.3% decrease in capacity.
- Group turnover from catering, recoveries and other services increased by 4.8%.

OPERATING EXPENSES

	Group			Cathay Pacific and Dragonair		
	Six months ended 30th June			Six months ended 30th June		
	2012 HK$M	2011 HK$M	**Change**	**2012 HK$M**	2011 HK$M	**Change**
Staff	**7,956**	7,206	**+10.4%**	**7,226**	6,560	**+10.2%**
Inflight service and passenger expenses	**1,979**	1,797	**+10.1%**	**1,979**	1,797	**+10.1%**
Landing, parking and route expenses	**6,714**	6,259	**+7.3%**	**6,586**	6,149	**+7.1%**
Fuel, net of hedging gains	**20,407**	18,564	**+9.9%**	**19,958**	18,175	**+9.8%**
Aircraft maintenance	**4,643**	3,760	**+23.5%**	**4,542**	3,661	**+24.1%**
Aircraft depreciation and operating leases	**4,415**	4,092	**+7.9%**	**4,346**	4,007	**+8.5%**
Other depreciation, amortisation and operating leases	**669**	580	**+15.3%**	**546**	469	**+16.4%**
Commissions	**388**	398	**-2.5%**	**388**	398	**-2.5%**
Others	**1,911**	1,337	**+42.9%**	**2,189**	1,573	**+39.2%**
Operating expenses	**49,082**	43,993	**+11.6%**	**47,760**	42,789	**+11.6%**
Net finance charges	**381**	314	**+21.3%**	**359**	293	**+22.5%**
Total operating expenses	**49,463**	44,307	**+11.6%**	**48,119**	43,082	**+11.7%**

- Group's total operating expenses increased by 11.6% to HK$49,463 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair rose from HK$3.35 to HK$3.72.

CATHAY PACIFIC AND DRAGONAIR OPERATING RESULTS ANALYSIS

	Six months ended 30th June	
	2012 HK$M	2011 HK$M
Airlines' (loss)/profit before tax	**(973)**	2,133
Tax credit/(charge)	**8**	(380)
Airlines' (loss)/profit after tax	**(965)**	1,753
Share of profits from subsidiaries and associates	**30**	1,055
(Loss)/profit attributable to owners of Cathay Pacific	**(935)**	2,808

The changes in the interim airlines' operating (loss)/profit before tax can be analysed as follows:

	HK$M	
2011 interim airlines' operating profit before tax	**2,133**	
Passenger and cargo turnover	**1,752**	**Passenger** – Increased due to a 6.9% increase in capacity, a 0.8 percentage points increase in load factor and a 1.2% increase in yield. **Cargo** – Decreased due to a 4.3% decrease in capacity, a 4.1 percentage points decrease in load factor and a 0.4% decrease in yield.
Fuel	**(1,783)**	– Fuel costs increased due to a 4.6% increase in the average into-plane fuel price and a 1.9% increase in consumption.
Landing, parking and route expenses	**(437)**	– Increased mainly due to an increase in operations.
Aircraft maintenance	**(881)**	– Increased mainly due to an increase in operations as well as additional shop visits.
Depreciation, amortisation and operating leases	**(416)**	– Increased mainly due to the acceleration of aircraft retirement.
Staff	**(666)**	– Increased mainly due to an increase in headcount driven by capacity growth and salary increase.
Others	**(675)**	– Increased mainly due to an increase of HK$182 million in inflight service and passenger expenses.
2012 interim airlines' operating loss before tax	**(973)**	

FUEL EXPENDITURE AND HEDGING

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

	Six months ended 30th June	
	2012 **HK$M**	2011 HK$M
Gross fuel cost	**20,798**	19,526
Fuel hedging gains	**(391)**	(962)
Net fuel cost	**20,407**	18,564

FINANCIAL POSITION

- Additions to fixed assets were HK$9,410 million, comprising HK$8,232 million for aircraft and related equipment and HK$1,178 million for other equipment and buildings.
- Borrowings increased by 14.4% to HK$49,572 million. These are fully repayable by 2024 and are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars, Japanese yen and Euros, with 73.0% at fixed rates of interest after taking into account the effect of related derivatives.
- Liquid funds, 68.8% of which are denominated in US dollars, increased by 2.2% to HK$20,022 million.
- Net borrowings increased by 24.5% to HK$29,552 million.
- Funds attributable to the owners of Cathay Pacific decreased by 4.3% to HK$53,385 million. The net debt/equity ratio increased to 0.55 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 2011 Annual Report.

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

(Incorporated in Hong Kong with limited liability)

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 and its subsidiaries (together "the Group") as of 30th June 2012 and the related consolidated statement of comprehensive income and statement of changes in equity and 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*" ("HKAS 34"), 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 HKAS 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.

BASIS FOR QUALIFIED CONCLUSION

Included in the consolidated statement of financial position is an investment in an associate, Air China Limited ("Air China"). The Group applies the equity method to account for its investment in Air China using financial information at 31st March. In respect of the six month period ended 30th June 2012, the Group has used financial information of Air China as at and for the six month period ended 31st March 2012 based on unaudited financial information contained in Air China's management accounts in respect of the period from 1st October 2011 to 31st March 2012, prepared in accordance with Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. The financial information has been adjusted by the Company's management for any differences to conform to the accounting policies set out in note 1 to the interim financial report and any significant events or transactions of Air China for the period from 1st April 2012 to 30th June 2012. The Group's share of the profits and net assets of Air China for the six month period ended 31st March 2012 and as at that date included in the Group's consolidated financial statements for the six month period ended 30th June 2012 amounted to HK$244 million and HK$11,451 million, respectively.

For the six month period ended 30th June 2012, Air China contributed a significant portion of the Group's result and is, accordingly, considered to be a significant associate due to its individual financial significance to the Group. Air China published its unaudited quarterly results for the three months to 31st March 2012 on 26th April 2012. It was not practicable for a review to be performed by us or by Air China's auditors on its management accounts for the six month period ended 31st March 2012 prior to the announcement of its results for the quarter to 31st March 2012. The reviewed results of Air China for the period ended 30th June 2012 have not been published as at the date of this review report. As a result, there were no other satisfactory review procedures that we could adopt and therefore we were unable to express a conclusion as to whether anything had come to our attention that caused us to believe that the carrying amount of the Group's investment in Air China and the Group's share of Air China's results for the six month period as included in the Group's interim financial report as at and for the six month period ended 30th June 2012 were not prepared, in all material respects, in accordance with HKAS 34. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Our independent auditor's report on the Group's consolidated financial statements for the year ended 31st December 2011 was also qualified due to our inability to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Group's investment in Air China and the Group's share of Air China's results for the year as included in the Group's consolidated financial statements as at and for the year ended 31st December 2011 were fairly stated.

Any adjustments that might have been found to be necessary in respect of the carrying amounts of the investment in Air China as at 31st December 2011 and 30th June 2012 would have a consequential effect on the Group's net assets as at 31st December 2011 and 30th June 2012, and the Group's loss for the six month period ended 30th June 2012 and related disclosures in the notes to the interim financial report.

QUALIFIED CONCLUSION

Based on our review, except for the possible effects of the matters described in the basis for qualified conclusion paragraphs above, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June 2012 is not prepared, in all material respects, in accordance with HKAS 34.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
8th August 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30th June 2012 – Unaudited

	Note	2012 HK$M	2011 HK$M	2012 US$M	2011 US$M
Turnover					
Passenger services		**34,713**	31,774	**4,450**	4,074
Cargo services		**11,897**	12,870	**1,525**	1,650
Catering, recoveries and other services		**2,251**	2,147	**289**	275
Total turnover	2	**48,861**	46,791	**6,264**	5,999
Expenses					
Staff		**(7,956)**	(7,206)	**(1,020)**	(924)
Inflight service and passenger expenses		**(1,979)**	(1,797)	**(254)**	(230)
Landing, parking and route expenses		**(6,714)**	(6,259)	**(861)**	(803)
Fuel, net of hedging gains		**(20,407)**	(18,564)	**(2,616)**	(2,380)
Aircraft maintenance		**(4,643)**	(3,760)	**(595)**	(482)
Aircraft depreciation and operating leases		**(4,415)**	(4,092)	**(566)**	(525)
Other depreciation, amortisation and operating leases		**(669)**	(580)	**(86)**	(74)
Commissions		**(388)**	(398)	**(49)**	(51)
Others		**(1,911)**	(1,337)	**(245)**	(171)
Operating expenses		**(49,082)**	(43,993)	**(6,292)**	(5,640)
Operating (loss)/profit	4	**(221)**	2,798	**(28)**	359
Finance charges		**(681)**	(849)	**(87)**	(109)
Finance income		**300**	535	**38**	69
Net finance charges	5	**(381)**	(314)	**(49)**	(40)
Share of (losses)/profits of associates		**(167)**	861	**(22)**	110
(Loss)/profit before tax		**(769)**	3,345	**(99)**	429
Taxation	6	**(57)**	(445)	**(7)**	(57)
(Loss)/profit for the period		**(826)**	2,900	**(106)**	372
Non-controlling interests		**(109)**	(92)	**(14)**	(12)
(Loss)/profit attributable to owners of Cathay Pacific		**(935)**	2,808	**(120)**	360
(Loss)/profit for the period		**(826)**	2,900	**(106)**	372
Other comprehensive income					
Cash flow hedges		**(18)**	519	**(2)**	66
Revaluation deficit arising from available-for-sale financial assets		**(1)**	(17)	**–**	(2)
Share of other comprehensive income of associates		**50**	92	**6**	12
Exchange differences on translation of foreign operations		**(182)**	292	**(23)**	37
Other comprehensive income for the period, net of tax	7	**(151)**	886	**(19)**	113
Total comprehensive income for the period		**(977)**	3,786	**(125)**	485
Total comprehensive income attributable to					
Owners of Cathay Pacific		**(1,086)**	3,694	**(139)**	473
Non-controlling interests		**109**	92	**14**	12
		(977)	3,786	**(125)**	485
(Loss)/earnings per share (basic and diluted)	8	**(23.8)¢**	71.4¢	**(3.1)¢**	9.2¢

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 2012 – Unaudited

	Note	30th June 2012 HK$M	31st December 2011 HK$M	30th June 2012 US$M	31st December 2011 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*10*	**77,708**	73,498	**9,962**	9,423
Intangible assets	*11*	**8,960**	8,601	**1,149**	1,103
Investments in associates	*12*	**17,183**	17,894	**2,203**	2,294
Other long-term receivables and investments		**5,903**	5,783	**757**	741
		109,754	105,776	**14,071**	13,561
Long-term liabilities		**(45,203)**	(38,410)	**(5,795)**	(4,924)
Related pledged security deposits		**1,684**	3,637	**216**	466
Net long-term liabilities	*13*	**(43,519)**	(34,773)	**(5,579)**	(4,458)
Other long-term payables	*14*	**(2,692)**	(2,612)	**(345)**	(335)
Deferred taxation		**(6,768)**	(6,797)	**(868)**	(871)
		(52,979)	(44,182)	**(6,792)**	(5,664)
Net non-current assets		**56,775**	61,594	**7,279**	7,897
Current assets and liabilities					
Stock		**1,179**	1,155	**151**	148
Trade, other receivables and other assets	*15*	**10,209**	9,859	**1,309**	1,264
Assets held for sale	*16*	**719**	746	**92**	95
Liquid funds	*17*	**20,022**	19,597	**2,567**	2,512
		32,129	31,357	**4,119**	4,019
Current portion of long-term liabilities		**(8,653)**	(10,603)	**(1,109)**	(1,359)
Related pledged security deposits		**2,600**	2,041	**333**	261
Net current portion of long-term liabilities	*13*	**(6,053)**	(8,562)	**(776)**	(1,098)
Trade and other payables	*18*	**(17,899)**	(17,464)	**(2,295)**	(2,239)
Unearned transportation revenue		**(10,182)**	(9,613)	**(1,305)**	(1,232)
Taxation		**(1,256)**	(1,368)	**(161)**	(175)
		(35,390)	(37,007)	**(4,537)**	(4,744)
Net current liabilities		**(3,261)**	(5,650)	**(418)**	(725)
Total assets less current liabilities		**106,493**	100,126	**13,653**	12,836
Net assets		**53,514**	55,944	**6,861**	7,172
CAPITAL AND RESERVES					
Share capital	*19*	**787**	787	**101**	101
Reserves		**52,598**	55,022	**6,743**	7,054
Funds attributable to owners of Cathay Pacific		**53,385**	55,809	**6,844**	7,155
Non-controlling interests		**129**	135	**17**	17
Total equity		**53,514**	55,944	**6,861**	7,172

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 2012 – Unaudited

	2012 HK$M	2011 HK$M	2012 US$M	2011 US$M
Operating activities				
Cash generated from operations	**4,077**	7,069	**523**	906
Dividends received from associates	**35**	383	**4**	49
Interest received	**86**	52	**11**	6
Net interest paid	**(272)**	(253)	**(35)**	(32)
Tax paid	**(195)**	(217)	**(25)**	(28)
Net cash inflow from operating activities	**3,731**	7,034	**478**	901
Investing activities				
Net decrease in liquid funds other than cash and cash equivalents	**267**	2,213	**34**	284
Sales of fixed assets	**1,673**	645	**214**	82
Sales of assets held for sale	**34**	–	**4**	–
Net increase in other long-term receivables and investments	**(66)**	(19)	**(8)**	(2)
Payments for investments in associates	**–**	(2,731)	**–**	(350)
Payments for fixed and intangible assets	**(9,811)**	(6,709)	**(1,257)**	(860)
Net cash outflow from investing activities	**(7,903)**	(6,601)	**(1,013)**	(846)
Financing activities				
New financing	**12,664**	3,197	**1,624**	410
Loan and finance lease repayments	**(6,359)**	(4,066)	**(815)**	(521)
Security deposits placed	**(19)**	(18)	**(2)**	(2)
Dividends paid – to owners of Cathay Pacific	**(1,338)**	(3,069)	**(172)**	(394)
– to non-controlling interests	**(115)**	(80)	**(15)**	(10)
Net cash inflow/(outflow) from financing activities	**4,833**	(4,036)	**620**	(517)
Increase/(decrease) in cash and cash equivalents	**661**	(3,603)	**85**	(462)
Cash and cash equivalents at 1st January	**9,612**	8,272	**1,232**	1,061
Effect of exchange differences	**(44)**	120	**(6)**	15
Cash and cash equivalents at 30th June	**10,229**	4,789	**1,311**	614

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 2012 – 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 2012	**787**	**38,785**	**16,295**	**885**	**(2,417)**	**1,474**	**55,809**	**135**	**55,944**
Total comprehensive income for the period	**–**	**(935)**	**–**	**(1)**	**(18)**	**(132)**	**(1,086)**	**109**	**(977)**
2011 second interim dividend	**–**	**(1,338)**	**–**	**–**	**–**	**–**	**(1,338)**	**–**	**(1,338)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(115)**	**(115)**
	–	**(2,273)**	**–**	**(1)**	**(18)**	**(132)**	**(2,424)**	**(6)**	**(2,430)**
At 30th June 2012	**787**	**36,512**	**16,295**	**884**	**(2,435)**	**1,342**	**53,385**	**129**	**53,514**
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

With effect from the year ended 31st December 2011, the Company intends to consider paying two interim dividends instead of considering paying an interim dividend and a final dividend. Any second interim dividend will be in lieu of a final dividend. If two interim dividends are paid, the total amount of dividends paid to shareholders for a year will be the same with two interim dividends as it would have been with an interim dividend and a final dividend.

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 8th August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

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	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M
Sales to external customers	**48,340**	46,308	**521**	483			**48,861**	46,791
Inter-segment sales	**4**	4	**857**	769			**861**	773
Segment revenue	**48,344**	46,312	**1,378**	1,252			**49,722**	47,564
Segment results	**(292)**	2,715	**71**	83			**(221)**	2,798
Net finance charges	**(378)**	(311)	**(3)**	(3)			**(381)**	(314)
	(670)	2,404	**68**	80			**(602)**	2,484
Share of (losses)/profits of associates					**(167)**	861	**(167)**	861
(Loss)/profit before tax	**(670)**	2,404	**68**	80	**(167)**	861	**(769)**	3,345
Taxation	**(41)**	(432)	**(16)**	(13)			**(57)**	(445)
(Loss)/profit for the period							**(826)**	2,900

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 unallocated results represent the Group's share of (losses)/profits of associates.

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	
	2012 HK$M	2011 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**21,366**	20,206
– Japan, Korea and Taiwan	**6,384**	6,343
India, Middle East, Pakistan and Sri Lanka	**2,268**	2,333
Southeast Asia	**3,956**	3,407
Southwest Pacific and South Africa	**3,494**	3,391
Europe	**4,415**	4,641
North America	**6,978**	6,470
	48,861	46,791

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 2011 Annual Report.

4. Operating (loss)/profit

	Six months ended 30th June	
	2012 HK$M	2011 HK$M
Operating (loss)/profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**1,093**	958
– owned	**2,219**	2,120
Amortisation of intangible assets	**42**	20
Operating lease rentals		
– land and buildings	**399**	358
– aircraft and related equipment	**1,314**	1,201
– others	**17**	15
Provision for impairment for assets held for sale	**37**	–
Loss on scrapping an aircraft	**247**	–
Cost of stock expensed	**1,087**	1,043
Exchange differences, net	**(11)**	(291)
Auditors' remuneration	**4**	4
Net gains on financial assets and liabilities classified as held for trading	**–**	(83)
Income from unlisted investments	**(56)**	(7)

5. Net finance charges

	Six months ended 30th June	
	2012 HK$M	2011 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**337**	335
– interest income on related security deposits, notes and bonds	**(127)**	(158)
	210	177
– bank loans and overdrafts		
– wholly repayable within five years	**82**	51
– not wholly repayable within five years	**38**	22
– other loans		
– wholly repayable within five years	**25**	24
– not wholly repayable within five years	**13**	–
– other long-term receivables	**(14)**	–
	354	274
Income from liquid funds:		
– funds with investment managers and other liquid investments	**(94)**	(130)
– bank deposits and other receivables	**(44)**	(32)
	(138)	(162)
Fair value change:		
– obligations under finance leases designated as at fair value through profit and loss	**20**	225
– financial derivatives	**145**	(23)
	165	202
	381	314

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

Included in fair value change in respect of financial derivatives are net losses that are classified as held for trading of HK$47 million (2011: gains of HK$126 million).

6. Taxation

	Six months ended 30th June	
	2012 HK$M	2011 HK$M
Current tax expenses		
– Hong Kong profits tax	**62**	49
– overseas tax	**142**	155
– (over)/under provision for prior years	**(135)**	12
Deferred tax		
– origination and reversal of temporary differences	**(12)**	229
	57	445

Hong Kong profits tax is calculated at 16.5% (2011: 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 21(d) to the accounts).

7. Other comprehensive income

	Six months ended 30th June	
	2012 HK$M	2011 HK$M
Cash flow hedges		
– recognised during the period	**241**	264
– transferred to profit and loss	**(291)**	311
– deferred tax recognised	**32**	(56)
Revaluation of available-for-sale financial assets		
– recognised during the period	**(1)**	(17)
Share of other comprehensive income of associates	**50**	92
Exchange differences on translation of foreign operations	**(182)**	292
Other comprehensive income for the period	**(151)**	886

8. (Loss)/earnings per share (basic and diluted)

Loss per share is calculated by dividing the loss attributable to the owners of Cathay Pacific of HK$935 million (2011: profit of HK$2,808 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2011: 3,934 million) shares.

9. Dividends

No interim dividends were declared by the Board of Directors (2011: HK$0.18 per share) for the period ended 30th June 2012.

10. 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 2012	**117,195**	**3,694**	**5,497**	**4,282**	**130,668**
Exchange differences	**(2)**	**–**	**–**	**–**	**(2)**
Additions	**8,232**	**162**	**90**	**926**	**9,410**
Disposals	**(3,294)**	**(74)**	**(227)**	**–**	**(3,595)**
At 30th June 2012	**122,131**	**3,782**	**5,360**	**5,208**	**136,481**
Accumulated depreciation					
At 1st January 2012	**51,996**	**2,570**	**2,604**	**–**	**57,170**
Charge for the period	**3,101**	**107**	**104**	**–**	**3,312**
Disposals	**(1,409)**	**(73)**	**(227)**	**–**	**(1,709)**
At 30th June 2012	**53,688**	**2,604**	**2,481**	**–**	**58,773**
Net book value					
At 30th June 2012	**68,443**	**1,178**	**2,879**	**5,208**	**77,708**
At 31st December 2011	65,199	1,124	2,893	4,282	73,498

Fixed assets at 30th June 2012 include leased assets of HK$36,294 million (31st December 2011: HK$31,253 million).

11. Intangible assets

	Goodwill HK$M	Computer systems HK$M	Total HK$M
Cost			
At 1st January 2012	**7,666**	**1,619**	**9,285**
Additions	**–**	**401**	**401**
At 30th June 2012	**7,666**	**2,020**	**9,686**
Accumulated amortisation			
At 1st January 2012	**–**	**684**	**684**
Charge for the period	**–**	**42**	**42**
At 30th June 2012	**–**	**726**	**726**
Net book value			
At 30th June 2012	**7,666**	**1,294**	**8,960**
At 31st December 2011	7,666	935	8,601

12. Investment in associates

	30th June 2012 HK$M	31st December 2011 HK$M
Share of net assets		
– listed in Hong Kong	**11,451**	11,642
– unlisted, net of impairment	**1,642**	2,117
Goodwill	**4,090**	4,135
	17,183	17,894

13. Long-term liabilities

	30th June 2012		31st December 2011	
	Current HK$M	Non-current HK$M	Current HK$M	Non-current HK$M
Long-term loans	**2,539**	**16,645**	5,832	12,858
Obligations under finance leases	**3,514**	**26,874**	2,730	21,915
	6,053	**43,519**	8,562	34,773

14. Other long-term payables

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

15. Trade, other receivables and other assets

	30th June 2012 HK$M	31st December 2011 HK$M
Trade debtors	**6,334**	5,908
Derivative financial assets – current portion	**646**	1,044
Other receivables and prepayments	**3,201**	2,844
Due from associates	**28**	63
	10,209	9,859

15. Trade, other receivables and other assets (continued)

	30th June 2012 HK$M	31st December 2011 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**6,238**	5,839
One to three months overdue	**70**	59
More than three months overdue	**26**	10
	6,334	5,908

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.

16. Assets held for sale

	30th June 2012 HK$M	31st December 2011 HK$M
Assets held for sale	**719**	746
	719	746

17. Liquid funds

	30th June 2012 HK$M	31st December 2011 HK$M
Short-term deposits and bank balances	**10,231**	9,612
Short-term deposits maturing beyond three months when placed	**7**	228
Funds with investment managers		
– debt securities listed outside Hong Kong	**7,931**	7,778
– bank deposits	**15**	106
Other liquid investments		
– debt securities listed outside Hong Kong	**1,520**	1,515
– bank deposits	**318**	358
	20,022	19,597

Included in other liquid investments are bank deposits of HK$318 million (31st December 2011: HK$358 million) and debt securities of HK$1,520 million (31st December 2011: HK$1,515 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 2012 HK$M	31st December 2011 HK$M
Trade creditors	**7,282**	7,663
Derivative financial liabilities – current portion	**1,282**	1,182
Other payables	**9,066**	8,318
Due to associates	**33**	49
Due to other related companies	**234**	252
Bank overdrafts – unsecured	**2**	–
	17,899	17,464

	30th June 2012 HK$M	31st December 2011 HK$M
Analysis of trade creditors by age:		
Current	**7,095**	7,428
One to three months overdue	**179**	225
More than three months overdue	**8**	10
	7,282	7,663

19. Share capital

During the period under review, the Group did not purchase, sell or redeem any of its shares. At 30th June 2012, 3,933,844,572 shares were in issue (31st December 2011: 3,933,844,572 shares).

20. Related party transactions

Material transactions between the Group and associates and other related parties which were carried out in the normal course of business on commercial terms are summarised below:

	Six months ended 30th June 2012		Six months ended 30th June 2011	
	Associates HK$M	Other related parties HK$M	Associates HK$M	Other related parties HK$M
Turnover	**123**	**9**	136	8
Aircraft maintenance costs	**2**	**1,206**	1	1,113
Operating costs	**309**	**87**	282	197
Dividends received	**(400)**	**–**	(383)	–

21. 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 2012 HK$M	31st December 2011 HK$M
Authorised and contracted for	**97,215**	99,272
Authorised but not contracted for	**10,011**	17,175
	107,226	116,447

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

	30th June 2012 HK$M	31st December 2011 HK$M
Associates	**489**	489
Staff	**200**	200
	689	689

(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 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 ("NZCC") 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 August 2011, the Auckland High Court issued its first stage decision, holding that it had jurisdiction over all claims brought by the NZCC. The second stage trial is scheduled for 2013.

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

21. Commitments and contingencies (continued)

In November 2010, the Korean Fair Trade Commission ("KFTC") issued a written decision and fined Cathay Pacific KRW 5.35 billion (equivalent to HK$36 million at the exchange rate current as of the date of the announcement) in connection with its air cargo practices. In May 2012, the Seoul High Court affirmed the KFTC's decision, and this matter is now closed.

In November 2010, the European Commission 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. In January 2011, the Company filed an appeal with the General Court of the European Union.

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, the 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. 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 2011 Annual Report.

22. 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.

23. Event after the reporting period

In August 2012, a supplementary agreement was entered into under which a wholly owned subsidiary of the Company agreed to convert an existing order for 16 Airbus A350-900 aircraft into larger Airbus A350-1000 aircraft and exercised an option to purchase an additional 10 Airbus A350-1000 aircraft. The catalogue price of converting the 16 aircraft and acquiring the 10 aircraft is approximately HK$34,022 million. The actual purchase price, 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 set out in the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the interim report with the following exceptions which it believes do not benefit shareholders:

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

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out 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 2012 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

DIRECTORS' PARTICULARS

A change in the particulars of the Directors is set out as follows:

1. Irene Lee resigned as a Director of Keybridge Capital Limited with effect from 4th April 2012.

DIRECTORS' INTERESTS

At 30th June 2012, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following beneficial interest in the shares of Cathay Pacific Airways Limited:

	Capacity	No. of shares	Percentage of issued capital (%)
Ian Shiu	Personal	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 2012 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	2,949,997,987	74.99	Attributable interest [(a)]
2. China National Aviation Holding Company	2,949,997,987	74.99	Attributable interest [(b)]
3. Swire Pacific Limited	2,949,997,987	74.99	Attributable interest [(a)]
4. John Swire & Sons Limited	2,949,997,987	74.99	Attributable interest [(c)]

Note: At 30th June 2012:

(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 2,949,997,987 shares of the Company, comprising:

(i) 1,770,238,000 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 2,949,997,987 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 2,949,997,987 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 44.16% of the issued capital and approximately 58.98% of the voting rights.

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