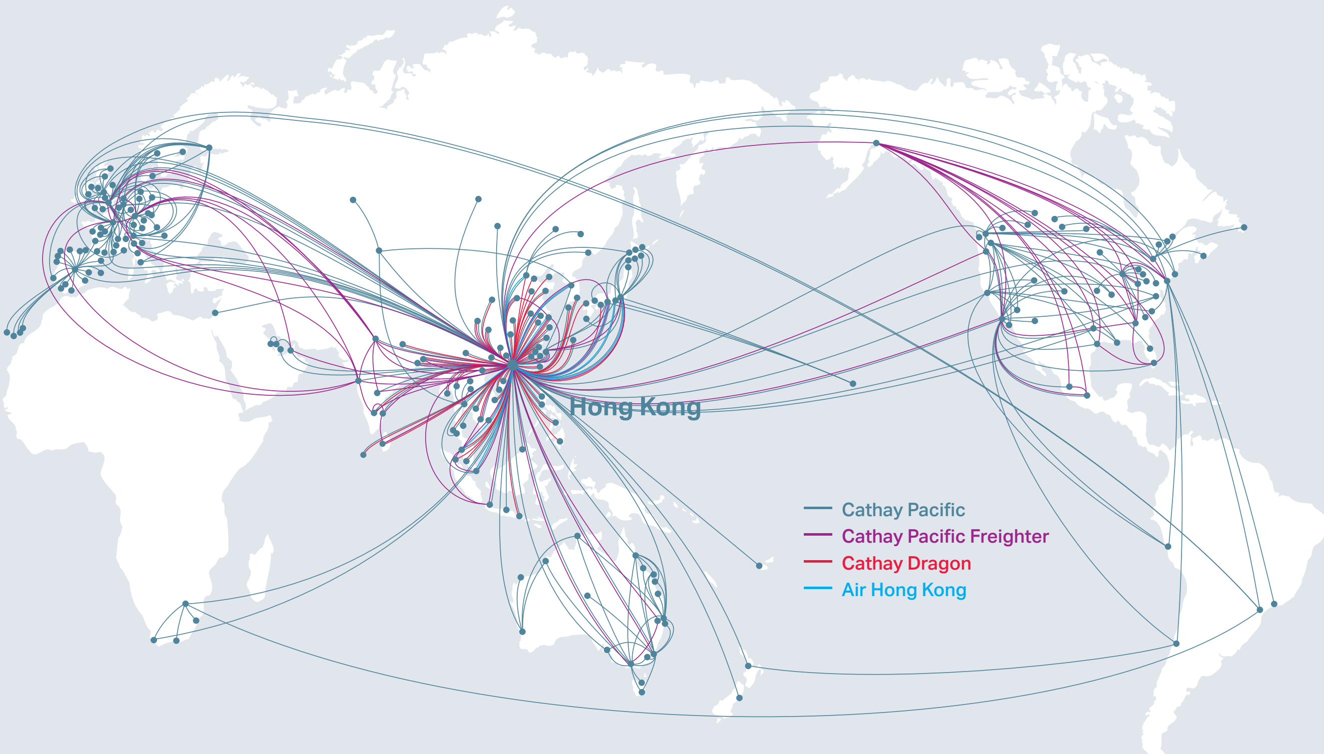
CATHAY PACIFIC

INTERIM REPORT 2019

Cathay Pacific Airways Limited

Stock Code: 00293

oneworld



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Corporate Information

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

Investor relations

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CATHAY PACIFIC AIRWAYS LIMITED

("Cathay Pacific"), with its subsidiaries Hong Kong Dragon Airlines Limited ("Cathay Dragon") and AHK Air Hong Kong Limited ("Air Hong Kong"), operated 216 aircraft at 30th June 2019, directly connecting Hong Kong to 111 destinations in 35 countries worldwide (248 and 54 respectively with code share agreements), including 26 destinations in Mainland China. The Cathay Pacific Group is the world's 9th largest carrier of international passengers, and the 3rd largest carrier of international air cargo.

Cathay Pacific was founded in Hong Kong in 1946. It has been deeply committed to its home base over the last seven decades and remains so, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres.

Cathay Pacific itself operated 158 passenger and cargo aircraft at 30th June 2019. The Group's other investments include catering and ground-handling companies and its corporate headquarters and cargo terminal at Hong Kong International Airport.

Cathay Dragon, a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 48 aircraft at 30th June 2019. Air Hong Kong, an all-cargo carrier offering scheduled services in Asia, is a wholly-owned subsidiary of Cathay Pacific operating 10 aircraft at 30th June 2019. Hong Kong Express Airways Limited ("Hong Kong Express"), a low cost carrier the acquisition of which was completed in July 2019, operates 24 aircraft. Cathay Pacific owns 18.13% 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. The Group continues to invest heavily in its home city. At 30th June 2019 it had 67 new aircraft due for delivery up to 2024.

At 30th June 2019, Cathay Pacific and its subsidiaries employed more than 32,800 people worldwide, of whom around 26,700 are employed 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 1,000 destinations worldwide. Cathay Dragon is an affiliate member of **one**world.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Group Financial Statistics

		2019	2018	
		Six months ended 30th June		Change
Results				
Revenue	*HK$ million*	**53,547**	53,078	**+0.9%**
Profit/(loss) attributable to the shareholders of Cathay Pacific	*HK$ million*	**1,347**	(263)	**+1,610**
Earnings/(loss) per share	*HK cents*	**34.2**	(6.7)	**+40.9**
Dividend per share	*HK$*	**0.18**	0.10	**+0.08**
Profit/(loss) margin	*%*	**2.5**	(0.5)	**+3.0%pt**
		30th June	31st December	
Financial position*				
Funds attributable to the shareholders of Cathay Pacific*	*HK$ million*	**62,566**	63,936	**-2.1%**
Net borrowings*	*HK$ million*	**78,213**	58,581	**+33.5%**
Shareholders' funds per share*	*HK$*	**15.9**	16.3	**-2.5%**
Net debt/equity ratio*	*Times*	**1.25**	0.92	**+0.33 times**

Operating Statistics – Cathay Pacific and Cathay Dragon

		2019	2018	
		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	*Million*	**16,318**	15,747	**+3.6%**
Available seat kilometres ("ASK")	*Million*	**80,814**	75,770	**+6.7%**
Available cargo tonne kilometres ("AFTK")**	*Million*	**8,635**	8,542	**+1.1%**
Revenue tonne kilometres ("RTK")	*Million*	**11,950**	11,899	**+0.4%**
Passenger revenue per ASK	*HK cents*	**46.3**	46.8	**-1.1%**
Revenue passenger kilometres ("RPK")	*Million*	**68,078**	63,810	**+6.7%**
Revenue passengers carried	*'000*	**18,261**	17,485	**+4.4%**
Passenger load factor	*%*	**84.2**	84.2	**–**
Passenger yield	*HK cents*	**54.9**	55.4	**-0.9%**
Cargo revenue per AFTK**	*HK$*	**1.19**	1.32	**-9.8%**
Cargo revenue tonne kilometres ("RFTK")**	*Million*	**5,477**	5,831	**-6.1%**
Cargo carried**	*'000 tonnes*	**979**	1,038	**-5.7%**
Cargo load factor**	*%*	**63.4**	68.3	**-4.9%pt**
Cargo yield**	*HK$*	**1.88**	1.93	**-2.6%**
Cost per ATK (with fuel)	*HK$*	**3.12**	3.29	**-5.2%**
Fuel consumption per million RTK	*Barrels*	**1,870**	1,840	**+1.6%**
Fuel consumption per million ATK	*Barrels*	**1,369**	1,390	**-1.5%**
Cost per ATK (without fuel)	*HK$*	**2.23**	2.29	**-2.6%**
Underlying*** cost per ATK (without fuel)	*HK$*	**2.27**	2.29	**-0.9%**
ATK per HK$'000 staff cost	*Unit*	**1,805**	1,783	**+1.2%**
ATK per staff	*'000*	**604**	603	**+0.2%**
Aircraft utilisation	*Hours per day*	**12.0**	12.2	**-1.6%**
On-time performance	*%*	**74.2**	74.1	**+0.1%pt**

* Shareholders' funds, net borrowings and net debt/equity ratio at 30th June 2019 are arrived at after taking account of the effect of HKFRS 16. Further details can be found in note 2 to the financial statements.

** Including mail. Mail is no longer referred to separately but mail services continue to be accounted for under cargo services.

*** Underlying costs exclude exceptional items and are adjusted for the effect of foreign currency movements and the adoption of HKFRS 16.

CHAIRMAN'S STATEMENT

We are in the final year of our three-year transformation programme, which is designed to make our businesses leaner, more agile and able to compete more effectively. Work on the programme continues and, as evidenced by our return to profitability in 2018, we are moving in the right direction. Our positive performance continued in the first half of 2019, but the operating environment for our airlines worsened as geopolitical and trade tensions intensified.

The Cathay Pacific Group reported an attributable profit of HK$1,347 million for the first six months of 2019. This compares to an attributable loss of HK$263 million in the first half of 2018. The earnings per share in the first half of 2019 were HK34.2 cents, compared to a loss per share of HK6.7 cents in the first half of 2018. Cathay Pacific and Cathay Dragon reported an attributable profit of HK$615 million in the first half of 2019, compared to an attributable loss of HK$904 million in the first half of 2018. Passenger revenue was satisfactory, but overall yield declined. Our cargo business was weaker, due in part to US-China trade tensions, with a decline in both volume and yield. We benefited from lower fuel prices but were adversely impacted by a stronger US dollar.

Business performance

The Group's passenger revenue increased by 5.6% to HK$37,449 million in the first half of 2019. Capacity increased by 6.7%. The growth in revenue reflected the full impact of new routes introduced in 2018, the introduction of two new routes in 2019, increased frequencies on existing routes and the use of larger aircraft on popular routes. Load factor remained unchanged at 84.2%. Passengers carried increased by 4.4% to 18.3 million. Yield decreased by 0.9% to HK54.9 cents due to intense competition in premium classes and long haul economy class, and adverse foreign currency movements.

Cathay Pacific introduced a year-round service to Seattle in March and a summer seasonal service to Komatsu in April. These services have been well received and have helped to boost Hong Kong International Airport's status as Asia's largest international aviation hub.

Cargo revenue declined, reflecting weaker global trade brought about in part by US-China trade tensions. Volume and yield declined. The Group's cargo revenue in the first half of 2019 was HK$11,498 million, a decrease of 11.4% compared to the same period in 2018. Flown cargo capacity of Cathay Pacific and Cathay Dragon increased by 1.1%, principally due to additional belly cargo space in newly acquired passenger aircraft. Facing weak demand, we rationalised freighter capacity and emphasised shipments of specialist cargo. Load factor decreased by 4.9 percentage points, to 63.4%. Tonnage carried decreased by 5.7% to 979 thousand tonnes. Yield decreased by 2.6% to HK$1.88.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) decreased by HK$674 million (or 4.5%) compared with the first half of 2018, reflecting a 6.5% decrease in average into-plane fuel prices and a 2.0% increase in consumption. Fuel is the Group's most significant cost, accounting for 28.2% of total operating costs in the first half of 2019 (compared to 30.1% in the same period in 2018). Fuel hedging losses were reduced. After taking fuel hedging into account, fuel costs decreased by HK$1,213 million (or 7.7%) compared with the first half of 2018. Fuel consumption per available tonne kilometre fell by 1.5%, reflecting the continued introduction of more fuel efficient aircraft.

There was a 2.6% decrease in non-fuel costs per available tonne kilometre, to HK$2.23. Disregarding the effect of foreign currency movements, exceptional items and the impact of adopting a new accounting standard, the decrease was 0.9%. This reflected our focus on productivity and efficiency.

The contribution from our subsidiaries weakened. The contribution from associated companies improved.

In the first half of 2019 we took delivery of four new Airbus A350-1000 aircraft. At 30th June 2019, we had 67 new aircraft on order for delivery over the next five years. These new aircraft will further improve our fuel and operating efficiency. We continue to fit the latest economy seats in our Boeing 777 aircraft. These seats come with new, hi-definition screens for viewing our recently expanded inflight entertainment. Wi-Fi is being installed on all our Boeing 777 and Airbus A330 aircraft; it is already available on all A350 aircraft.

We continue to introduce our new, restaurant-style dining service in business class on long haul routes. In July we reopened our renovated lounge at Shanghai Pudong airport. We have improved our rebooking process during flight disruptions. We are further developing our service and customer care teams and improving service delivery training. A new crew pairing system will further increase efficiency. Cathay Pacific and Cathay Dragon crews now sign on for their flights under the same roof at Cathay Pacific City, which saves cost. We have completed the restructuring of our outport and integrated operations centre teams.

Prospects

Our airlines normally achieve better results in the second half of the year than in the first half and, despite headwinds and other uncertainty, we expect this to be the case in 2019. Geopolitical and trade tensions are expected to continue to affect the global economy and, in turn, demand for air travel and air freight. The protests in Hong Kong reduced inbound passenger traffic in July and are adversely impacting forward bookings. We expect the US dollar to remain strong. Fuel costs have recently weakened but we continue to expect fuel price volatility. Our transformation programme continues and we believe that we are on track to achieve our objective of sustainable long-term performance. The recent refreshment of our brand reflects our determination to challenge what is considered standard, to 'Move Beyond' and be the very best we can be for our customers and for our shareholders. I remain confident in our future.

Cathay Pacific has been Hong Kong's home airline for over seven decades and we remain resolutely committed to this wonderful city. Our story has always been one of innovation and ambition. We will continue to make significant investments in strengthening Hong Kong's standing as Asia's largest international aviation hub.

Our recent announcement of the completion of our acquisition of Hong Kong Express is the commencement of a new chapter. We intend to preserve what is unique and special about Hong Kong Express and to keep it as a low cost carrier, while at the same time broadening its network and maximising synergies with the rest of the Cathay Pacific group.

John Slosar
Chairman
Hong Kong, 7th August 2019

REVIEW OF OPERATIONS

We are in the final year of our three-year transformation programme, which is designed to make our businesses leaner, more agile and able to compete more effectively. Work on the programme continues and, as evidenced by our return to profitability in 2018, we are moving in the right direction. Our positive performance continued in the first half of 2019, but the operating environment for our airlines worsened as geopolitical and trade tensions intensified.

Passenger revenue was satisfactory, but overall yield declined. Our cargo business was weaker, due in part to US-China trade tensions, with a decline in both volume and yield. We benefited from lower fuel prices but were adversely impacted by a stronger US dollar.

Transformation

In 2017, we laid the foundations. We put in place a more efficient head office organisation and reduced our Hong Kong headcount. We formed a central Digital team to improve our use of technology and analyse data, a Lean team which focuses on business process improvement and a Global Business Services team which focuses on shared efficiency.

In 2018, we started restructuring our operations outside Hong Kong, benefited from productivity improvements, increased our digital capabilities and concentrated on developing a shared service capability. We improved inflight dining, passenger comfort, the way in which we contact passengers and our loyalty programmes. We extended our network at a record rate and improved our service delivery training. We also increased our ancillary sources of revenue.

In 2019 we are focusing on continuous improvement in our airlines' core activities, which have been broken down into nine processes as part of an effort to obtain stronger cooperation across business functions. Business units have proposed around 1,000 transformation initiatives, the majority of which are expected to provide financial or other benefits in 2019. These initiatives include improvements to sourcing, increasing the productivity of line maintenance outside Hong Kong and the development of new sources of revenue. We are improving our global contact centres and our integrated operations control units. Our SAP system is improving our financial analysis and our ability to control spending. Our crew management programme is improving productivity and lifestyles. We are investing more in digital and analytical capability and in process automation. Our Global Business Services team has taken on tasks resulting from the reengineering of our core business processes. For our customers we have introduced new seats, installed Wi-Fi across the majority of our long-haul fleet of aircraft, enhanced food and beverage offerings in all classes, and upgraded our digital platform to give customers more control of their journey – with the promise of more to come in the months ahead.

While the primary goal of the transformation programme is to ensure our business returns to sustainable financial health, the transformation intentions are of course broader and deeper. How we build a winning team and how we create a business that can compete and win beyond 2019 is dependent on the success with which we anticipate and react to changing customer expectations; and providing a proposition to our customers that makes us more attractive than competitive alternatives. To that end in the first half of 2019, we commenced a new brand journey, which has the purpose of moving people forward in life, through our ability to connect them to meaningful people, places and experiences. 'Move Beyond' reflects our determination to challenge what is considered standard; to move beyond and be the very best we can be. We are moving beyond for our customers by bringing personal recognition and a sense of care and reliability to the whole travel experience. Living up to this aspiration will enable Cathay Pacific to reach levels of service and customer experience that place us amongst the world's greatest service brands.

Passenger services

Our passenger business in the first half of 2019 was stronger than the first half of 2018. The Group's passenger revenue in the first six months of 2019 was HK$37,449 million, an increase of 5.6% compared to the same period in 2018. Capacity increased by 6.7%, reflecting the full impact of new routes introduced in 2018, the launch of new routes to Seattle and Komatsu in 2019, increased frequencies on existing routes and the use of larger aircraft on popular routes. These services have been well received and have helped to boost Hong Kong International Airport's status as Asia's largest international aviation hub. The overall load factor remained unchanged at 84.2% despite this capacity addition. However, yield decreased by 0.9% to HK54.9 cents, reflecting intense competition in premium classes and long haul economy class, an increase in the number of transit passengers and unfavourable foreign currency movements.

Available seat kilometres ("ASK"), load factor and yield change by region for Cathay Pacific and Cathay Dragon passenger services for the first half of 2019 were as follows:

	ASK (million)			Load factor (%)			Yield
	2019	2018	**Change**	**2019**	2018	**Change**	**Change**
Americas	**21,493**	19,492	**+10.3%**	**85.8**	88.2	**-2.4%pt**	**-1.1%**
Europe	**16,767**	15,143	**+10.7%**	**86.3**	86.2	**+0.1%pt**	**-1.8%**
North Asia	**16,108**	15,588	**+3.3%**	**80.4**	80.4	**–**	**+0.2%**
Southeast Asia	**10,709**	10,362	**+3.3%**	**83.3**	83.2	**+0.1%pt**	**+0.1%**
Southwest Pacific	**9,387**	9,301	**+0.9%**	**85.4**	81.6	**+3.8%pt**	**-2.3%**
South Asia, Middle East and Africa	**6,350**	5,884	**+7.9%**	**83.4**	81.7	**+1.7%pt**	**+2.2%**
Overall	**80,814**	75,770	**+6.7%**	**84.2**	84.2	**–**	**-0.9%**

Innovation

- In January, we opened The Sanctuary by Pure Yoga, a dedicated yoga and meditation space in The Pier Business Class lounge at Hong Kong International Airport.
- We continued to install new economy class seats in our Boeing 777-300ER and Boeing 777-300 aircraft in the first half of 2019. The new seats have been ergonomically designed and have thicker cushions. We improved our inflight entertainment and put larger screens in our Boeing 777-300ER aircraft. We continued to install Wi-Fi on our Boeing 777 and Airbus A330 aircraft. The Airbus A350 aircraft already have Wi-Fi. By the end of 2020, all our long-haul aircraft will have Wi-Fi.
- We introduced more meal options and restaurant style of dining in business class on long haul routes.
- Cathay Pacific was the official airline sponsor of RISE 2019 – Asia's largest tech conference – for the second year running.
- We improved our rebooking process during flight disruptions and the ability to make on-line booking amendments using mobile phones.
- In July, we reopened our renovated lounge at Shanghai Pudong airport.

Awards

- In January, Cathay Pacific and Cathay Dragon service teams and individual staff members won honours at the Hong Kong Customer Service Excellence Awards 2018.
- In February, Cathay Pacific won Best First Class Sparkling at the Cellars in the Sky 2018 Awards.

Home market – Hong Kong and Pearl River Delta

- Premium class demand was strong at the beginning of the year, particularly on long haul routes, but softened into the second quarter.

- Demand during Chinese New Year and the Easter holiday period was strong, particularly on short haul routes from Hong Kong.
- Our weekly "fanfares" promotions in Hong Kong demonstrate our commitment to offering good-value fares in our home market. There was a "super fanfare" promotion in April.

Americas

- Cathay Pacific introduced a four-times-weekly service to Seattle in March, using Airbus A350-900 aircraft. The service became daily in July.
- Demand on our routes to the Americas fell short of increases in capacity.

Europe

- Traffic volumes on our routes to Europe grew in line with capacity increases.
- From March, Cathay Pacific increased the frequency of its services to Frankfurt from daily to 10 times weekly.
- Cathay Pacific is increasing the frequency of its services to Madrid from five flights per week to daily between June and October 2019.
- Cathay Pacific is increasing the frequency of its services to Paris from 12 flights per week to twice daily between July and October 2019.
- Cathay Pacific expanded its codeshare agreement with the Lufthansa group so as to include three more routes to Europe. Cathay Pacific now places its code on Lufthansa's daily flights between Hong Kong and Frankfurt and Munich, and on Swiss International Air Lines' daily flights between Hong Kong and Zurich.

North Asia

- Demand for business and leisure travel to and from North Asia was firm. There was strong demand on the Taiwan routes from Hong Kong and Mainland China.
- Cathay Pacific introduced a two-times-weekly seasonal service to Komatsu in April. The service, which is operated by Airbus A330-300 aircraft, will continue until October.
- Cathay Dragon will introduce a winter seasonal service to Niigata in the fourth quarter of 2019. There will be two flights per week from October 2019 to March 2020.
- Cathay Dragon introduced a seasonal service to Tokushima in the fourth quarter of 2018, which has done well. The service will be reintroduced from November 2019 to March 2020.
- Cathay Dragon is increasing the frequency of its services to Nanning from four to five flights per week between March and October 2019.
- Cathay Dragon is increasing the frequency of its services to Chongqing from daily to eight flights per week between May and October 2019.

Southeast Asia

- Demand for travel to Southeast Asia destinations was robust. Load factors were strong, but there was pressure on yield.
- The routes introduced by Cathay Dragon in 2018 to Davao City and Medan have done well in 2019.

Southwest Pacific

- Southwest Pacific routes did well, helped by capacity reductions by other airlines.
- Competition put pressure on yield. But this was mostly offset by an increase in passenger numbers.
- Cathay Pacific will stop flying to Cairns in October 2019.

South Asia, Middle East and Africa

- Demand on South Asia, Middle East and Africa routes was strong, reflecting robust bookings from Hong Kong and Japan.
- Traffic on Indian routes was increased by capacity reductions by Indian carriers.

- Demand for travel to Colombo was affected by the bombings in April. Frequencies were reduced.
- From June, Cathay Pacific increased the frequency of its services to Hyderabad from four to five times weekly.
- From July, Cathay Pacific increased the frequency of its services to Dhaka from four to five times weekly.

Loyalty and reward programmes

Marco Polo Club

- The Marco Polo Club loyalty programme provides benefits and services to the frequent flyers of Cathay Pacific and Cathay Dragon.
- Marco Polo Club members contribute to about a quarter of the revenues of Cathay Pacific and Cathay Dragon.
- Club points are earned by reference to cabin class, fare class and distance travelled.
- Silver members (and above) have unlimited access to lounges when flying on Cathay Pacific or Cathay Dragon. All members are entitled to priority boarding and check-in.

Asia Miles

- Asia Miles is a leading travel and lifestyle rewards programme in Asia. It has more than 11 million members and more than 800 partners worldwide, including 26 airlines, more than 150 hotel brands and more than 400 dining partners and shops.
- There was a 27% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights in the first half of 2019 compared to the same period of last year.
- Marco Polo Club members are also members of Asia Miles.

Cargo services

The Group's cargo revenue in the first six months of 2019 was HK$11,498 million, a decrease of 11.4% compared to the same period in 2018. This reflected weaker global trade brought about in part by US-China trade tensions. Flown cargo capacity of Cathay Pacific and Cathay Dragon increased by 1.1%, principally due to additional belly cargo space in newly acquired passenger aircraft. Facing weak demand, we rationalised freighter capacity and emphasised shipments of specialist cargo. Load factor decreased by 4.9 percentage points to 63.4%. Tonnage carried decreased by 5.7%. Yield decreased by 2.6% to HK$1.88.

Available cargo tonne kilometres ("AFTK"), load factor and yield change for Cathay Pacific and Cathay Dragon cargo services for the first half of 2019 were as follows:

	AFTK (million)			Load factor (%)			Yield
	2019	2018	**Change**	**2019**	2018	**Change**	**Change**
Cathay Pacific and Cathay Dragon	**8,635**	8,542	**+1.1%**	**63.4**	68.3	**-4.9%pt**	**-2.6%**

- There was good growth in Southeast Asia cargo shipments in the early part of 2019.
- We increased freighter services to Singapore from January 2019.
- In April 2019, we expanded our joint business agreement with Lufthansa Cargo, so as to start eastbound joint shipments from Europe to Hong Kong. Under the agreement, Hong Kong is directly connected to Frankfurt, Amsterdam, Barcelona, Brussels, Dublin, London (Gatwick and Heathrow), Madrid, Manchester, Milan, Munich, Paris, Rome and Zurich.
- In April, Cathay Pacific became the first airline to be awarded CEIV Fresh, IATA's accreditation for perishable cargo handling.

Fleet development

- At 30th June 2019, Cathay Pacific operated 158 aircraft, Cathay Dragon operated 48 aircraft and Air Hong Kong operated 10 aircraft (a total of 216 aircraft). There are 67 new aircraft on order for delivery up to 2024.
- We took delivery of four Airbus A350-1000 aircraft in the first six months of 2019. We expect to have a total of 20 in service by the end of 2021.
- We retired one Boeing 777-200 aircraft in the first half of 2019.
- We took delivery of one used Boeing 777-300 aircraft in the first half of 2019.

Fleet profile*

	Number at 30th June 2019				Firm orders				Expiry of operating leases**						
		Leased**													
Aircraft type	Owned	Finance	Operating	Total	'19	'20	'21 and beyond	Total	'19	'20	'21	'22	'23	'24	'25 and beyond
Aircraft operated by Cathay Pacific:															
A330-300	20	10	3	33					1	2[a]					
A350-900	16	4	2	22	2[b]	4		6							2
A350-1000	9	3		12		3	5	8							
747-400BCF	1			1											
747-400ERF		6		6											
747-8F	3	11		14											
777-200	3			3											
777-300	15			15	2			2[c]							
777-300ER	22	8	22[d]	52					1[d]		6	4	2	3	6
777-9							21	21							
Total	89	42	27	158	4	7	26	37	2	2	6	4	2	3	8
Aircraft operated by Cathay Dragon:															
A320-200	5		10	15						4	3	3			
A321-200	2		6	8						1	2	2	1		
A321-200neo						9	23	32							
A330-300	18[e]		7	25					3	1	2				1
Total	25		23	48		9	23	32	3	6	7	5	1		1
Aircraft operated by Air Hong Kong:															
A300-600F***			10	10					1	1		5	3		
Total			10	10					1	1		5	3		
Grand total	**114**	**42**	**60**	**216**	**4**	**16**	**49**	**69**	**6**	**9**	**13**	**14**	**6**	**3**	**9**

* The table does not reflect aircraft movements after 30th June 2019.

** With effect from 1st January 2019, leases previously classified as operating leases are accounted for in a similar manner to finance leases as a result of an accounting standard change (HKFRS 16; see note 2 to the financial statements). The majority of operating leases captured in the above table are within the scope of HKFRS 16.

*** Under the new block space agreement Air Hong Kong entered with DHL International which commenced on 1st January 2019, the 10 Airbus A300-600F freighters are considered operated by Air Hong Kong, even though the arrangement does not constitute a lease in accordance with HKFRS 16.

(a) An extension was signed in July 2019 to extend the operating lease of one Airbus A330-300 aircraft to 2026.

(b) One aircraft was delivered in July 2019 and a second aircraft was delivered in August 2019.

(c) One used Boeing 777-300 aircraft has been delivered in July 2019 and a second aircraft will be delivered in second half of 2019.

(d) The operating lease of one Boeing 777-300ER aircraft expired in July 2019. The aircraft was returned to its lessor.

(e) Eight of these aircraft are owned by Cathay Pacific and leased by Cathay Dragon.

Review of other subsidiaries and associates

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

- Air Hong Kong principally operates express cargo services for DHL Express.
- Air Hong Kong operates 10 dry leased Airbus A300-600F freighters, one wet leased Airbus A330-300 passenger-to-freighter converted freighter and one wet leased Airbus A330-243F freighter as at 30th June 2019.
- Air Hong Kong operates six flights per week services to Bangkok, Ho Chi Minh City, Osaka, Penang (via Ho Chi Minh City), Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week services to Beijing, Manila and Nagoya.
- On-time performance was 89% within 15 minutes in the first half of 2019.
- Compared with the first half of 2018, capacity decreased by 7.5% to 344 million available tonne kilometres in the first half of 2019. The load factor increased by 3.3 percentage points to 67.7%. Revenue tonne kilometres decreased by 2.9% to 233 million.
- At the end of 2018, Air Hong Kong became a wholly owned subsidiary of Cathay Pacific, having been previously 60% owned by Cathay Pacific. Air Hong Kong continues to operate an agreed freighter network to destinations in Asia for DHL International. It does so under a new block space agreement with DHL International for a 15-year term, which commenced on 1st January 2019.
- In the first half of 2019, on a 100% like for like basis, Air Hong Kong recorded a decrease of profit compared with the same period in 2018.

Asia Miles Limited ("AML")

- AML, a wholly owned subsidiary, manages the Cathay Pacific Group's reward programme. It has more than 11 million members.
- AML achieved an increase in profit in the first half of 2019 compared with the first half of 2018 due to an increase in business volume.

Cathay Pacific Catering Services (H.K.) Limited ("CPCS") and kitchens outside Hong Kong

- CPCS, a wholly owned subsidiary, operates the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 50 international airlines in Hong Kong. It produced 84,200 meals for 200 flights per day on average in the first half of 2019 (an increase of 2.1% and a decrease of 2.4% respectively compared with the first half of 2018).
- CPCS's profit in the first half of 2019 decreased compared with the first half of 2018. Increases in labour and overhead costs more than offset an increase in revenue.
- The profits of the flight kitchens outside Hong Kong in the first half of 2019 decreased compared with the first half of 2018.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, owns and operates the Group's cargo terminal at Hong Kong International Airport. The terminal's annual handling capacity is 2.6 million tonnes. The terminal handles cargo for Cathay Pacific, Cathay Dragon, Air Hong Kong and 14 other airlines.
- CPSL handled 902 thousand tonnes of cargo in the first half of 2019 (a decrease of 10.3% compared with the first half of 2018), 54% of which were transhipments. Export and import shipments accounted for 30% and 16% respectively of the total.
- The financial results in the first half of 2019 declined compared with the first half of 2018. This was mainly due to lower tonnage being handled.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services at Hong Kong International Airport. At 30th June 2019, it provided ground handling services to 25 airlines, including Cathay Pacific and Cathay Dragon.

- In the first half of 2019, HAS had 44% and 5% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport. The number of flights handled under ramp handling business increased by 4%. The number of flights handled under passenger handling business decreased by 58% against same period last year. The reduction in passenger handling business followed the transfer of Cathay Dragon's passenger handling business to Cathay Pacific in March 2018.
- The financial results for the first half of 2019 were worse than in the first half of 2018. This reflected the loss of the Cathay Dragon passenger handling business.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 18.13% interest, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China.
- At 30th June 2019, Air China operated 336 domestic and 123 international (including regional) routes to 41 countries and regions, including 67 overseas cities, three regional cities and 120 domestic cities.
- Our share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently, our 2019 interim results include Air China's results for the six months ended 31st March 2019, adjusted for any significant events or transactions for the period from 1st April 2019 to 30th June 2019.
- For the six months ended 31st March 2019, Air China's financial results improved compared to those for the six months ended 31st March 2018.

Air China Cargo Co., Ltd. ("Air China Cargo")

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest totalling 49%, is the leading provider of air cargo services in Mainland China. It has its headquarters in Beijing. Its main operating base is in Shanghai Pudong.
- At 30th June 2019, Air China Cargo operated 15 freighters. It flies to 9 cities in Mainland China and 11 cities outside Mainland China. Taking into account its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to more than 200 destinations.
- In the first half of 2019, Air China Cargo's financial results declined from the same period last year due to intense competition in the air cargo market.

Data security incident

In October 2018, Cathay Pacific announced that it had discovered unauthorised access to passenger data and notified privacy regulators in affected jurisdictions, including the Hong Kong Privacy Commissioner for Personal Data. In June 2019, the Hong Kong Privacy Commissioner published a report on the data incident. Investigations by privacy regulators in Singapore and Taiwan have been closed. Cathay Pacific continues to respond to the investigations and enquiries of other privacy regulators.

Antitrust proceedings

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances in line with accounting policy 20 on page 117 in the 2018 Annual Report.

Environment

- Cathay Pacific participates in an International Civil Aviation Organization task force which leads the aviation industry's work in developing proposals for a fair, equitable and effective global agreement on emissions.
- Cathay Pacific engages with regulators and groups (the IATA Sustainability and Environment Advisory Council, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.

- In compliance with the European Union's Emissions Trading Scheme, our 2018 emissions data from intra-EU flights were reported on by an external auditor in January 2019 and our emissions report was submitted to the UK Environment Agency in February 2019.
- All our Airbus A350-1000 aircraft are being flown on their delivery flights from Toulouse using blended biofuel.
- We have been working with local non-profit organisations, Feeding Hong Kong and Food Angel, to turn surplus food from our operations to Hong Kong charities for distribution to people in need. Feeding Hong Kong collects unopened food items from inbound Cathay Pacific and Cathay Dragon flights. Food Angel collects unused and surplus food from our lounges, Cathay City and Cathay Pacific Catering Services kitchens. Over 260 tonnes of surplus food were donated during the first half of 2019.
- In March 2019, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all nonessential lighting in our buildings and on billboards.
- Plastic straws, stirrers and cutlery and plastic bags have been eliminated at Cathay City. Single-use plastic straws and stirrers will be phased out in 2019 on all Cathay Pacific and Cathay Dragon flights and in all of our lounges. Over 18 million pieces of single-use plastics will be eliminated in a year.
- Cathay Pacific is a constituent of the FTSE4Good Index and the Hang Seng Corporate Sustainability Index. We responded to the Carbon Disclosure Project climate change questionnaire.
- Our Sustainable Development Report for 2018 was published in July 2019. It is available at https://www.cathaypacific.com/cx/en_HK/about-us/environment/our-publications.html.
- Our new sustainable development website is available at https://sustainability.cathaypacific.com/.

Contribution to the community

- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Since its introduction in 1991, around HK$190 million has been raised through the programme.
- In January, we inaugurated our new community engagement programmes "Cathay ChangeMakers" to pay tribute to individuals who have brought about positive changes to the community. Three ChangeMakers are recognised in 2019. By partnering with them, we further our contribution to the community in four major areas: children and youth development, diversity and inclusion, environmental protection and global cultural exchange.
- I Can Fly, a community programme engaging secondary school students, was conducted again in 2019. Starting from March this year, 180 students attended a series of aviation- and social service-related activities designed to provide Hong Kong's future aviation leaders with valuable insights into the sector while also giving back to the community. A graduation ceremony for this year's event will take place in September. The programme launched in 2003 and to date has had more than 4,000 students participate.
- We organised tours of our headquarters at Hong Kong International Airport, Cathay Pacific City, for around 3,800 visitors in the first six months of 2019.

Commitment to employees

- At 30th June 2019, the Cathay Pacific Group employed more than 32,800 people worldwide. Around 26,700 of these people are based in Hong Kong. Cathay Pacific and Cathay Dragon employed more than 27,000 permanent staff worldwide.
- Cathay Pacific recruited around 1,420 staff in the first six months of 2019, including around 630 cabin crew and around 230 pilots. Cathay Dragon recruited around 160 cabin crew and 47 pilots in the same period.
- 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.

FINANCIAL REVIEW

The Cathay Pacific Group reported an attributable profit of HK$1,347 million for the first six months of 2019. This compares to an attributable loss of HK$263 million in the first half of 2018. The earnings per share in the first half of 2019 were HK34.2 cents, compared to a loss per share of HK6.7 cents in the first half of 2018. Cathay Pacific and Cathay Dragon reported an attributable profit of HK$615 million in the first half of 2019, compared to an attributable loss of HK$904 million in the first half of 2018.

Revenue

	Group			Cathay Pacific and Cathay Dragon		
	Six months ended 30th June			Six months ended 30th June		
	2019 HK$M	2018 HK$M	**Change**	**2019 HK$M**	2018 HK$M	**Change**
Passenger services	**37,449**	35,452	**+5.6%**	**37,449**	35,452	**+5.6%**
Cargo services	**11,498**	12,971	**-11.4%**	**10,275**	11,276	**-8.9%**
Catering, recoveries and other services	**4,600**	4,655	**-1.2%**	**4,126**	4,299	**-4.0%**
Total revenue	**53,547**	53,078	**+0.9%**	**51,850**	51,027	**+1.6%**

Group passenger services revenue increased by 5.6% compared with a 6.7% increase in capacity. Group cargo services revenue decreased by 11.4%, compared with a 1.1% increase in capacity. Group revenue from catering, recoveries and other services decreased by 1.2%.

Operating expenses

	Group			Cathay Pacific and Cathay Dragon		
	Six months ended 30th June			Six months ended 30th June		
	2019 HK$M	2018 HK$M	**Change**	**2019 HK$M**	2018 HK$M	**Change**
Staff	**10,133**	9,935	**+2.0%**	**9,042**	8,834	**+2.4%**
Inflight service and passenger expenses	**2,682**	2,625	**+2.2%**	**2,682**	2,625	**+2.2%**
Landing, parking and route expenses	**8,635**	8,648	**-0.2%**	**8,451**	8,472	**-0.2%**
Fuel, including hedging losses	**14,807**	16,046	**-7.7%**	**14,524**	15,737	**-7.7%**
Aircraft maintenance	**4,708**	4,691	**+0.4%**	**4,592**	4,490	**+2.3%**
Aircraft depreciation and rentals*	**5,944**	6,362	**-6.6%**	**5,945**	6,212	**-4.3%**
Other depreciation, amortisation and rentals*	**1,392**	1,424	**-2.2%**	**972**	1,045	**-7.0%**
Commissions	**503**	398	**+26.4%**	**503**	398	**+26.4%**
Others	**2,269**	2,252	**+0.8%**	**2,991**	3,061	**-2.3%**
Operating expenses	**51,073**	52,381	**-2.5%**	**49,702**	50,874	**-2.3%**
Net finance charges*	**1,420**	1,010	**+40.6%**	**1,241**	896	**+38.5%**
Total operating expenses	**52,493**	53,391	**-1.7%**	**50,943**	51,770	**-1.6%**

* The adoption of HKFRS 16 has resulted in increased depreciation and finance charges, offset by a reduction in lease charges.

- The Group's total operating expenses decreased by 1.7% (combined Cathay Pacific and Cathay Dragon by 1.6%).
- The cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon decreased from HK$3.29 to HK$3.12, a decrease of 5.2%.
- The cost per ATK (without fuel) of Cathay Pacific and Cathay Dragon decreased from HK$2.29 to HK$2.23, a decrease of 2.6%.
- The underlying cost per ATK (without fuel), which excludes exceptional items and adjusts for the effect of foreign currency movements and the adoption of HKFRS 16, decreased from HK$2.29 to HK$2.27, a decrease of 0.9%.

Operating results analysis

	Six months ended 30th June		
	2019 HK$M	2018 HK$M	**Change HK$M**
Airlines' profit/(loss) before exceptional items	**966**	(844)	**+1,810**
Exceptional items*	**(59)**	101	**-160**
Taxation	**(292)**	(161)	**-131**
Airlines' profit/(loss) after taxation	**615**	(904)	**+1,519**
Share of profits from subsidiaries and associates	**732**	641	**+91**
Profit/(loss) attributable to the shareholders of Cathay Pacific	**1,347**	(263)	**+1,610**

* Exceptional items in 2019 include data security costs of HK$20 million and costs of HK$39 million associated with the acquisition of Hong Kong Express (2018: a HK$101 million gain on the disposal of CO_2 emissions credits).

The movement in the airlines' profit/loss before exceptional items and taxation (isolating the effect of the adoption of HKFRS 16 and foreign currency movements) can be analysed as follows:

	Reported HK$M	HKFRS 16 adoption HK$M	Currency movement HK$M	Adjusted HK$M	ATK unit * % change	Note
2018 Airlines' loss before tax	**(844)**			**(844)**		
Changes:						
– Passenger and Cargo revenue	**996**		629	**1,625**	-0.1%	*1*
– Catering, recoveries and other services	**(173)**		22	**(151)**	-6.9%	*2*
– Staff	**(208)**		(78)	**(286)**	-0.4%	*3*
– Inflight service and passenger expenses	**(57)**		(38)	**(95)**	–	
– Landing, parking and route expenses	**21**		(196)	**(175)**	-1.5%	*4*
– Fuel, including hedging losses	**1,213**		18	**1,231**	-11.0%	*5*
– Aircraft maintenance	**(102)**		(7)	**(109)**	-1.2%	*4*
– Owning the assets **	**(5)**	39	(6)	**28**	-3.8%	*6*
– Other items (including commissions)	**125**	(24)	(309)	**(208)**	+2.1%	*7*
2019 Airlines' profit before tax	**966**	**15**	**35**	**1,016**		

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

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

Notes:

1) As per Review of Operations section for passenger and cargo services.
2) Lower cargo ancillary contribution from Atlas operations, trucking and interline sectors and handling services. Lower aircraft lease income and related recoveries from Air Hong Kong and lower inflight recoveries; offset by a 24% increase in Asia Miles revenues.
3) Reduction in unit staff costs following the reorganisation of our outports and increased productivity.
4) Economies of scale from the introduction of larger aircraft and a change in economy class seat configuration.
5) Fuel costs decreased due to a 6.5% fall in the average into-plane fuel price (partially offset by a 2.0% rise in absolute consumption) and a 82.5% decrease in fuel hedging losses.
6) Increase in aircraft depreciation offset by a decrease in rentals from fewer leased aircraft and the cessation of the Atlas contract. Net finance costs increased as a result of more aircraft deliveries in the second half of 2018 and first half of 2019. Increases in interest charges as a result of higher interest rates were partially offset by gains on interest rate derivatives.
7) Increased sales and marketing costs and Asia Miles costs partially offset by reductions in cargo costs in line with lower cargo volumes and lower IT costs.

Fuel expenditure and hedging

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

	Six months ended 30th June	
	2019 HK$M	2018 HK$M
Gross fuel cost	**14,693**	15,393
Fuel hedging losses	**114**	653
Fuel cost	**14,807**	16,046

Fuel costs decreased due to a 6.5% fall in the average into-plane fuel price, partially offset by a 2.0% rise in consumption. Fuel hedging losses were reduced by 82.5%.

Financial position

- Additions to property, plant and equipment during the six months period to 30th June 2019 were HK$7,614 million, comprising HK$7,236 million in respect of aircraft and related equipment, HK$262 million in respect of land and buildings and HK$116 million in respect of other equipment. As a result of the adoption of HKFRS 16 (which changed the required accounting for operating leases to recognise right-of-use assets), right-of-use assets of HK$17,350 million were brought onto the consolidated statement of financial position at 1st January 2019.
- Borrowings (which reflect the adoption of HKFRS 16) are mainly denominated in United States dollars, Hong Kong dollars and Japanese yen, and are fully repayable by 2033, with 54.1% currently at fixed rates of interest after taking into account derivative transactions. HKFRS 16 did not make a major change to the currency profile of borrowings. Excluding lease liabilities previously classified as operating leases, borrowings are fully repayable by 2030, with 48.0% at fixed rates of interest.
- Liquid funds, 87.5% of which are denominated in United States dollars, decreased by 18.2% to HK$12,528 million. This was mainly due to HK$2,250 million having been placed in escrow in connection with the acquisition of Hong Kong Express. The amount placed in escrow was classified as a non-current asset in the consolidated statement of financial position at 30th June 2019.
- Net borrowings (reflecting the adoption of HKFRS 16 and after taking liquid funds and bank overdrafts into account) increased by 33.5% to HK$78,213 million. Disregarding the effect of adopting HKFRS 16, net borrowings increased by 4.2% to HK$61,065 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 2.1% to HK$62,566 million. This was due to retained net profits and other comprehensive income, less the 2018 dividend distribution, being more than offset by the impact to opening reserves on the initial application of HKFRS 16.
- Disregarding the effect of adopting HKFRS 16, the net debt/equity ratio increased from 0.92 times to 0.94 times. Taking into account the effect of adopting HKFRS 16, the net debt/equity ratio was 1.25 times at both 31st December 2018 and 30th June 2019.
- 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 2018 Annual Report.

To the Board of Directors of Cathay Pacific Airways Limited

(Incorporated in Hong Kong with limited liability)

KPMG

Introduction

We have reviewed the interim financial report set out on pages 17 to 38 which comprises the consolidated statement of financial position of Cathay Pacific Airways Limited (the "Company") and its subsidiaries (together the "Group") as of 30th June 2019 and the related consolidated statement of profit or loss and other comprehensive income, consolidated 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*, 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 2019 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
7th August 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2019 – Unaudited

	Note	**2019 HK$M**	2018 HK$M	**2019 US$M**	2018 US$M
Revenue					
Passenger services		**37,449**	35,452	**4,801**	4,545
Cargo services		**11,498**	12,971	**1,474**	1,662
Catering, recoveries and other services		**4,600**	4,655	**590**	597
Total revenue		**53,547**	53,078	**6,865**	6,804
Expenses					
Staff		**(10,133)**	(9,935)	**(1,299)**	(1,274)
Inflight service and passenger expenses		**(2,682)**	(2,625)	**(344)**	(337)
Landing, parking and route expenses		**(8,635)**	(8,648)	**(1,107)**	(1,109)
Fuel, including hedging losses		**(14,807)**	(16,046)	**(1,898)**	(2,057)
Aircraft maintenance		**(4,708)**	(4,691)	**(604)**	(600)
Aircraft depreciation and rentals		**(5,944)**	(6,362)	**(762)**	(816)
Other depreciation, amortisation and rentals		**(1,392)**	(1,424)	**(179)**	(182)
Commissions		**(503)**	(398)	**(64)**	(51)
Others		**(2,269)**	(2,252)	**(291)**	(289)
Operating expenses		**(51,073)**	(52,381)	**(6,548)**	(6,715)
Operating profit	4	**2,474**	697	**317**	89
Finance charges		**(1,617)**	(1,169)	**(207)**	(149)
Finance income		**197**	159	**25**	20
Net finance charges	5	**(1,420)**	(1,010)	**(182)**	(129)
Share of profits of associates		**648**	449	**83**	57
Profit before taxation		**1,702**	136	**218**	17
Taxation	6	**(355)**	(211)	**(45)**	(27)
Profit/(loss) for the period		**1,347**	(75)	**173**	(10)
Non-controlling interests		**–**	(188)	**–**	(24)
Profit/(loss) attributable to the shareholders of Cathay Pacific		**1,347**	(263)	**173**	(34)
Earnings/(loss) per share (basic and diluted)	7	**34.2¢**	(6.7)¢	**4.4¢**	(0.9)¢
Profit/(loss) for the period		**1,347**	(75)	**173**	(10)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**671**	4,074	**86**	522
Share of other comprehensive income of associates		**(258)**	63	**(33)**	8
Exchange differences on translation of foreign operations		**(22)**	(353)	**(3)**	(45)
Items that may not be reclassified subsequently to profit or loss:					
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		**25**	–	**3**	–
Other comprehensive income for the period, net of taxation	8	**416**	3,784	**53**	485
Total comprehensive income for the period		**1,763**	3,709	**226**	475
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**1,763**	3,521	**226**	451
Non-controlling interests		**–**	188	**–**	24
		1,763	3,709	**226**	475

The financial statements are prepared and presented in HK$, the functional currency. The US$ figures are shown only as supplementary information and are translated at US$1:HK$7.8.

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 below.

The notes on pages 21 to 38 form part of these financial statements.

Consolidated Statement of Financial Position

at 30th June 2019 – Unaudited

	Note	**30th June 2019 HK$M**	31st December 2018 HK$M	**30th June 2019 US$M**	31st December 2018 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	*9*	**136,689**	117,124	**17,524**	15,016
Intangible assets	*10*	**11,153**	11,174	**1,430**	1,432
Investments in associates	*11*	**26,343**	27,570	**3,377**	3,534
Other long-term receivables and investments		**4,874**	4,015	**625**	515
Deferred tax assets		**706**	793	**91**	102
		179,765	160,676	**23,047**	20,599
Long-term liabilities	*12*	**(71,952)**	(60,183)	**(9,225)**	(7,716)
Other long-term payables	*13*	**(4,674)**	(4,649)	**(599)**	(596)
Deferred tax liabilities		**(13,076)**	(13,178)	**(1,676)**	(1,689)
		(89,702)	(78,010)	**(11,500)**	(10,001)
Net non-current assets		**90,063**	82,666	**11,547**	10,598
Current assets and liabilities					
Stock		**1,737**	1,828	**223**	234
Trade, other receivables and other assets	*14*	**12,366**	12,475	**1,585**	1,599
Liquid funds	*15*	**12,528**	15,315	**1,606**	1,964
		26,631	29,618	**3,414**	3,797
Current portion of long-term liabilities	*12*	**(18,789)**	(13,694)	**(2,409)**	(1,756)
Trade and other payables	*16*	**(18,790)**	(19,408)	**(2,409)**	(2,488)
Unearned transportation revenue		**(15,257)**	(14,030)	**(1,956)**	(1,799)
Bank overdrafts – unsecured		**–**	(19)	**–**	(2)
Taxation		**(1,289)**	(1,193)	**(165)**	(153)
Dividend payable to non-controlling interests		**–**	(1)	**–**	–
		(54,125)	(48,345)	**(6,939)**	(6,198)
Net current liabilities		**(27,494)**	(18,727)	**(3,525)**	(2,401)
Total assets less current liabilities		**152,271**	141,949	**19,522**	18,198
Net assets		**62,569**	63,939	**8,022**	8,197
CAPITAL AND RESERVES					
Share capital	*17*	**17,106**	17,106	**2,193**	2,193
Other reserves		**45,460**	46,830	**5,829**	6,004
Funds attributable to the shareholders of Cathay Pacific		**62,566**	63,936	**8,022**	8,197
Non-controlling interests		**3**	3	**–**	–
Total equity		**62,569**	63,939	**8,022**	8,197

The financial statements are prepared and presented in HK$, the functional currency. The US$ figures are shown only as supplementary information and are translated at US$1:HK$7.8.

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 below.

The notes on pages 21 to 38 form part of these financial statements.

Consolidated Statement of Cash Flows

for the six months ended 30th June 2019 – Unaudited

	2019 HK$M	2018 HK$M	**2019 US$M**	2018 US$M
Operating activities				
Cash generated from operations	**11,425**	9,308	**1,465**	1,193
Interest received	**95**	115	**12**	14
Interest paid	**(1,496)**	(840)	**(192)**	(107)
Tax paid	**(156)**	(90)	**(20)**	(11)
Net cash inflow from operating activities	**9,868**	8,493	**1,265**	1,089
Investing activities				
Net decrease in liquid funds other than cash and cash equivalents	**223**	2,066	**29**	265
Proceeds from sales of property, plant and equipment	**23**	16	**3**	2
Proceeds from sales of intangible assets	**–**	196	**–**	25
Net increase in other long-term receivables and investments	**(2,252)**	–	**(289)**	–
Payments for property, plant and equipment and intangible assets	**(7,654)**	(4,001)	**(981)**	(513)
Dividends received from associates	**14**	20	**2**	3
Net cash outflow from investing activities	**(9,646)**	(1,703)	**(1,236)**	(218)
Financing activities				
New financing	**6,971**	1,236	**894**	158
Loan and lease repayments	**(9,027)**	(9,345)	**(1,158)**	(1,198)
Dividends paid – to the shareholders of Cathay Pacific	**(787)**	(197)	**(101)**	(25)
– to non-controlling interests	**(1)**	(180)	**–**	(23)
Net cash outflow from financing activities	**(2,844)**	(8,486)	**(365)**	(1,088)
Decrease in cash and cash equivalents	**(2,622)**	(1,696)	**(336)**	(217)
Cash and cash equivalents at 1st January	**7,653**	6,914	**981**	886
Effect of exchange differences	**(9)**	10	**(1)**	1
Cash and cash equivalents at 30th June	**5,022**	5,228	**644**	670

The financial statements are prepared and presented in HK$, the functional currency. The US$ figures are shown only as supplementary information and are translated at US$1:HK$7.8.

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 below.

The Group placed HK$2,250 million in an escrow in connection with the acquisition of Hong Kong Express. This amount is not classified under liquid funds and is included in other long-term receivables and investments at 30th June 2019. This is reflected in the consolidated statement of cash flows as a net increase in other long-term receivables and investments for the six months ended 30th June 2019.

The notes on pages 21 to 38 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2019 – Unaudited

	Attributable to the shareholders of Cathay Pacific								
	Share capital HK$M	Retained profit HK$M	Investment revaluation reserve (recycling) HK$M	Investment revaluation reserve (non-recycling) HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
Balance at 31st December 2018	**17,106**	**46,956**	**–**	**(181)**	**83**	**(28)**	**63,936**	**3**	**63,939**
Impact on initial application of HKFRS 16	**–**	**(2,346)**	**–**	**–**	**–**	**–**	**(2,346)**	**–**	**(2,346)**
Adjusted balance at 1st January 2019	**17,106**	**44,610**	**–**	**(181)**	**83**	**(28)**	**61,590**	**3**	**61,593**
Changes in equity for the six months ended 30th June 2019:									
Profit for the period	**–**	**1,347**	**–**	**–**	**–**	**–**	**1,347**	**–**	**1,347**
Other comprehensive income	**–**	**–**	**–**	**25**	**671**	**(280)**	**416**	**–**	**416**
Total comprehensive income for the period	**–**	**1,347**	**–**	**25**	**671**	**(280)**	**1,763**	**–**	**1,763**
2018 second interim dividend	**–**	**(787)**	**–**	**–**	**–**	**–**	**(787)**	**–**	**(787)**
At 30th June 2019	**17,106**	**45,170**	**–**	**(156)**	**754**	**(308)**	**62,566**	**3**	**62,569**
Balance at 31st December 2017	17,106	44,115	505	–	(1,503)	878	61,101	171	61,272
Impact on initial application of HKFRS 9	–	725	(505)	(181)	–	(39)	–	–	–
Impact on initial application of HKFRS 15	–	631	–	–	–	–	631	–	631
Adjusted balance at 1st January 2018	17,106	45,471	–	(181)	(1,503)	839	61,732	171	61,903
Changes in equity for the six months ended 30th June 2018:									
(Loss)/profit for the period	–	(263)	–	–	–	–	(263)	188	(75)
Other comprehensive income	–	–	–	–	4,074	(290)	3,784	–	3,784
Total comprehensive income for the period	–	(263)	–	–	4,074	(290)	3,521	188	3,709
2017 interim dividend	–	(197)	–	–	–	–	(197)	–	(197)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(180)	(180)
At 30th June 2018	17,106	45,011	–	(181)	2,571	549	65,056	179	65,235

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 below.

The notes on pages 21 to 38 form part of these financial statements.

Notes to the Financial Statements

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 (the "Listing Rules") 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 ("HKICPA"). It was authorised for issue on 7th August 2019.

The financial information relating to the year ended 31st December 2018 that is included in this document as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2018 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2018 annual financial statements except for those noted in note 2 below.

2. Changes in accounting policies

The HKICPA has issued a new Hong Kong Financial Reporting Standard ("HKFRS") and amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, "Leases", none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

HKFRS 16, "Leases"

HKFRS 16 replaces HKAS 17 "Leases" and related interpretations where the distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the consolidated statement of financial position for all leases by lessees, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The standard does not significantly change the accounting of lessors.

2. Changes in accounting policies (continued)

HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained profit at 1st January 2019. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under HKAS 17 and related interpretations.

The Group has chosen to apply the new definition of a lease to all contracts on transition to the new standard. The reclassifications and the adjustments arising from the new leasing rules for lessees are recognised in the opening balance of the consolidated statement of financial position at 1st January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the lessees at 1st January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 1st January 2019 was 3.92%.

A reconciliation between commitments under operating leases for future periods at 31st December 2018 and lease liabilities recognised at 1st January 2019 under HKFRS 16 is provided below:

	HK$M
Operating lease commitments disclosed at 31st December 2018	**19,958**
Less: commitments relating to leases exempt from capitalisation:	
– leases with remaining lease term ending on or before 31st December 2019, short-term leases and leases of low-value assets	**(301)**
Less: adjustments for contracts reassessed based on the lease definition in HKFRS 16	**(4)**
Add: adjustments as a result of a different treatment of extension and termination options	**1,500**
	21,153
Less: total future interest charges	**(2,550)**
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1st January 2019	**18,603**
Add: obligations under finance leases recognised at 31st December 2018	**23,191**
Lease liabilities recognised at 1st January 2019	**41,794**
Of which are:	
Current lease liabilities	**7,293**
Non-current lease liabilities	**34,501**
	41,794

2. Changes in accounting policies (continued)

The associated right-of-use assets for aircraft and other significant leases were measured on a modified retrospective basis as if the new rules had always been applied since the commencement dates of the leases, but discounted using the respective incremental borrowing rates at 1st January 2019. Other right-of-use assets were measured at the amount equal to the lease liabilities. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the consolidated statement of financial position at 1st January 2019:

	At 31st December 2018 HK$M	**Impact of initial application of HKFRS 16 HK$M**	**At 1st January 2019 HK$M**
Assets			
Property, plant and equipment	117,124	**18,566**	**135,690**
Investments in associates	27,570	**(1,219)**	**26,351**
Other long-term receivables and investments	4,015	**(1,173)**	**2,842**
Deferred tax assets	793	**(3)**	**790**
Trade, other receivables and other assets	12,475	**(187)**	**12,288**
Liabilities			
Trade and other payables	(19,408)	**18**	**(19,390)**
Long-term liabilities	(73,877)	**(18,603)**	**(92,480)**
Deferred tax liabilities	(13,178)	**255**	**(12,923)**
Equity			
Other reserves	(46,830)	**2,346**	**(44,484)**

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients permitted by the standard at the date of initial application of HKFRS 16:

- when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31st December 2019;
- the Group excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application of HKFRS 16; and
- the Group applied hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2. Changes in accounting policies (continued)

(b) The Group's leasing activities and how these are accounted for

The Group leases various aircraft, offices, equipment, properties and motor vehicles. The Group also has the right to occupy space, including cargo/catering facilities, lounges and other concessionary space, in and around airports under different types of leasing arrangements. Rental contracts are typically made for fixed periods of 1 to 50 years but may have extension and early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Prior to 1st January 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made by lessees under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1st January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Generally, the Group uses its incremental borrowing rate as the discount rate.

Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2. Changes in accounting policies (continued)

The estimated effects of adopting HKFRS 16 on the financial statements for the six months ended 30th June 2019 are as follows:

	Six months ended 30th June 2019 HK$M
Estimated effect on consolidated statement of profit or loss and other comprehensive income*:	
Decrease/(increase) in expenses	
Lease charges	**2,023**
Depreciation of property, plant and equipment	**(1,732)**
Finance charges	**(340)**
Exchange differences, net	**24**
Taxation	**2**
Decrease in profit attributable to the shareholders of Cathay Pacific	**(23)**
Decrease in earnings per share (basic and diluted)	**(0.6)¢**

	At 30th June 2019 HK$M
Estimated effect on consolidated statement of financial position*:	
Increase/(decrease) in assets	
Property, plant and equipment	**17,062**
Investments in associates	**(1,219)**
Other long-term receivables and investments	**(1,152)**
Deferred tax assets	**(2)**
Trade, other receivables and other assets	**(183)**
	14,506
(Increase)/decrease in liabilities	
Trade and other payables	**17**
Long-term liabilities	**(17,148)**
Deferred tax liabilities	**256**
	(16,875)
Equity	
Decrease in other reserves	**2,369**

* Excluding the impact on share of profits of associates for the six months ended 30th June 2019.

2. Changes in accounting policies (continued)

	Six months ended 30th June 2019 HK$M
Estimated effect on consolidated statement of cash flows:	
Increase in cash generated from operations	**1,999**
Increase in interest paid	**(340)**
Increase in net cash inflow from operating activities	**1,659**
Increase in loan and lease repayments	**(1,659)**
Increase in net cash outflow from financing activities	**(1,659)**

The adoption of HKFRS 16 caused a significant increase in the Group's total borrowings and hence the Group's adjusted net debt/equity ratio rose from 0.92 to 1.25 on 1st January 2019 when compared to its position at 31st December 2018.

The Group's net debt/equity ratio at the end of the current and previous reporting period under HKFRS 16 and HKAS 17 was as follows:

	HKFRS 16 30th June 2019 HK$M	(Hypothetical) HKAS 17 30th June 2019 HK$M	HKFRS 16 1st January 2019 HK$M	HKAS 17 31st December 2018 HK$M
Non-current liabilities:				
Long-term loans	**39,287**	**39,287**	**40,952**	40,952
Lease liabilities	**32,665**	**19,055**	**34,501**	19,231
	71,952	**58,342**	**75,453**	60,183
Current liabilities:				
Long-term loans	**12,115**	**12,115**	**9,734**	9,734
Lease liabilities	**6,674**	**3,136**	**7,293**	3,960
	18,789	**15,251**	**17,027**	13,694
Total borrowings	**90,741**	**73,593**	**92,480**	73,877
Liquid funds less bank overdrafts	**(12,528)**	**(12,528)**	**(15,296)**	(15,296)
Net borrowings	**78,213**	**61,065**	**77,184**	58,581
Funds attributable to the shareholders of Cathay Pacific	**62,566**	**64,935**	**61,590**	63,936
Adjusted net debt/equity ratio	**1.25**	**0.94**	**1.25**	0.92

3. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2019 HK$M	2018 HK$M	**2019 HK$M**	2018 HK$M	**2019 HK$M**	2018 HK$M	**2019 HK$M**	2018 HK$M
Sales to external customers	**52,984**	52,455	**563**	623			**53,547**	53,078
Inter-segment sales	**5**	4	**1,753**	1,841			**1,758**	1,845
Segment revenue	**52,989**	52,459	**2,316**	2,464			**55,305**	54,923
Segment profit/(loss)	**2,546**	707	**(72)**	(10)			**2,474**	697
Net finance charges	**(1,241)**	(899)	**(179)**	(111)			**(1,420)**	(1,010)
	1,305	(192)	**(251)**	(121)			**1,054**	(313)
Share of profits of associates					**648**	449	**648**	449
Profit before taxation							**1,702**	136
Taxation	**(357)**	(245)	**2**	34			**(355)**	(211)
Profit/(loss) for the period							**1,347**	(75)

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 (inclusive of Cathay Pacific, Cathay Dragon and Air Hong Kong). The non-airline business segment includes mainly catering, ground handling, aircraft ramp handling services and cargo terminal operations. The unallocated results represent the Group's share of 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.

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

(b) Geographical information

	Six months ended 30th June	
	2019 HK$M	2018 HK$M
Revenue by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**26,352**	26,791
– Japan, Korea and Taiwan	**5,113**	5,175
Americas	**7,463**	6,927
Europe	**5,317**	5,108
Southeast Asia	**3,924**	4,022
Southwest Pacific	**2,732**	2,585
South Asia, Middle East and Africa	**2,646**	2,470
	53,547	53,078

A geographic analysis of segment results is not disclosed for the reasons set out in the 2018 Annual Report.

4. Operating profit

	Six months ended 30th June	
	2019 HK$M	2018 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– leased	**2,730**	998
– owned	**3,810**	3,613
Amortisation of intangible assets	**278**	263
Operating lease rentals		
– land and buildings	**–**	566
– aircraft and related equipment	**–**	2,288
– others	**–**	58
Expenses relating to short-term leases and leases of low-value assets	**113**	–
Loss on disposal of property, plant and equipment, net	**33**	52
Loss/(gain) on disposal of intangible assets	**9**	(101)
Cost of stock expensed	**1,157**	1,090
Exchange differences, net	**2**	319
Auditors' remuneration	**8**	7
Dividend income from unlisted investments	**(45)**	(41)

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

5. Net finance charges

	Six months ended 30th June	
	2019 HK$M	2018 HK$M
Net interest charges comprise:		
– lease liabilities stated at amortised cost	**693**	307
– bank loans and overdrafts		
– wholly repayable within five years	**263**	238
– not wholly repayable within five years	**625**	453
– other loans		
– wholly repayable within five years	**50**	58
	1,631	1,056
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(100)**	(36)
– bank deposits and others	**(97)**	(123)
	(197)	(159)
Fair value change:		
– loss/(gain) on financial liabilities designated at fair value through profit or loss	**7**	(46)
– (gain)/loss on financial derivatives	**(21)**	159
	(14)	113
	1,420	1,010

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 gains from derivatives that are classified as held for trading of HK$5 million (2018: net losses of HK$39 million).

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

6. Taxation

	Six months ended 30th June	
	2019 HK$M	2018 HK$M
Current tax expenses		
– Hong Kong profits tax	**73**	90
– overseas tax	**133**	135
– under/(over) provisions for prior years	**7**	(29)
Deferred tax		
– origination and reversal of temporary differences	**142**	15
	355	211

Hong Kong profits tax is calculated at 16.5% (2018: 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(c) to the financial statements).

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

7. Earnings/(loss) per share (basic and diluted)

Earnings/(loss) per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$1,347 million (2018: a loss of HK$263 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2018: 3,934 million) shares.

8. Other comprehensive income

	Six months ended 30th June	
	2019 HK$M	2018 HK$M
Cash flow hedges		
– gain recognised during the period	**1,049**	3,587
– (gain)/loss transferred to profit or loss	**(291)**	1,039
– deferred taxation	**(87)**	(552)
Share of other comprehensive income of associates	**(258)**	63
Exchange differences on translation of foreign operations		
– loss recognised during the period	**(22)**	(353)
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		
– gain recognised during the period	**25**	–
Other comprehensive income for the period	**416**	3,784

9. Property, plant and equipment

	Aircraft and related equipment			Other equipment		Land and buildings			
	Owned HK$M	Finance leased HK$M	Right-of-use assets [(a)] HK$M	Owned HK$M	Right-of-use assets HK$M	Owned HK$M	Right-of-use assets HK$M	Under construction HK$M	Total HK$M
Cost									
At 1st January 2019	**122,247**	**44,526**	**–**	**5,413**	**–**	**15,191**	**–**	**22**	**187,399**
Adoption of HKFRS 16 – reclassification of finance leases [(a)]	**–**	**(44,526)**	**44,526**	**–**	**–**	**–**	**–**	**–**	**–**
Adoption of HKFRS 16 – reclassification of leasehold land rental prepayments [(b)]	**–**	**–**	**–**	**–**	**–**	**–**	**2,059**	**–**	**2,059**
Adoption of HKFRS 16 – recognition of operating leases [(c)]	**–**	**–**	**12,143**	**–**	**271**	**–**	**4,936**	**–**	**17,350**
At 1st January 2019, adjusted	**122,247**	**–**	**56,669**	**5,413**	**271**	**15,191**	**6,995**	**22**	**206,808**
Additions	**6,138**	**–**	**1,098**	**114**	**2**	**38**	**224**	**–**	**7,614**
Disposals	**(447)**	**–**	**–**	**(26)**	**–**	**(2)**	**(22)**	**–**	**(497)**
Transfers	**1,694**	**–**	**(1,694)**	**–**	**–**	**–**	**–**	**–**	**–**
Other right-of-use asset adjustments	**–**	**–**	**15**	**–**	**2**	**–**	**7**	**–**	**24**
At 30th June 2019	**129,632**	**–**	**56,088**	**5,501**	**275**	**15,227**	**7,204**	**22**	**213,949**
Accumulated depreciation and impairment									
At 1st January 2019	**47,770**	**13,405**	**–**	**3,359**	**–**	**5,741**	**–**	**–**	**70,275**
Adoption of HKFRS 16 – reclassification of finance leases [(a)]	**–**	**(13,405)**	**13,405**	**–**	**–**	**–**	**–**	**–**	**–**
Adoption of HKFRS 16 – reclassification of leasehold land rental prepayments [(b)]	**–**	**–**	**–**	**–**	**–**	**–**	**843**	**–**	**843**
At 1st January 2019, adjusted	**47,770**	**–**	**13,405**	**3,359**	**–**	**5,741**	**843**	**–**	**71,118**
Charge for the period	**3,274**	**–**	**2,252**	**168**	**34**	**368**	**444**	**–**	**6,540**
Disposals	**(377)**	**–**	**–**	**(21)**	**–**	**–**	**–**	**–**	**(398)**
Transfers	**942**	**–**	**(942)**	**–**	**–**	**–**	**–**	**–**	**–**
At 30th June 2019	**51,609**	**–**	**14,715**	**3,506**	**34**	**6,109**	**1,287**	**–**	**77,260**
Net book value									
At 30th June 2019	**78,023**	**–**	**41,373**	**1,995**	**241**	**9,118**	**5,917**	**22**	**136,689**
At 31st December 2018	74,477	31,121	–	2,054	–	9,450	–	22	117,124

(a) Assets held under finance leases under HKAS 17 have been reclassified as right-of-use assets upon adoption of HKFRS 16 on 1st January 2019.

(b) Leasehold land rental prepayments have been reclassified as right-of-use assets upon adoption of HKFRS 16 on 1st January 2019.

(c) Assets held under operating leases under HKAS 17 have been recognised as right-of-use assets upon adoption of HKFRS 16 on 1st January 2019.

10. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2019	**7,666**	**6,828**	**39**	**14,533**
Additions	**–**	**266**	**–**	**266**
Disposals	**–**	**(9)**	**–**	**(9)**
At 30th June 2019	**7,666**	**7,085**	**39**	**14,790**
Accumulated amortisation				
At 1st January 2019	**–**	**3,342**	**17**	**3,359**
Charge for the period	**–**	**276**	**2**	**278**
At 30th June 2019	**–**	**3,618**	**19**	**3,637**
Net book value				
At 30th June 2019	**7,666**	**3,467**	**20**	**11,153**
At 31st December 2018	7,666	3,486	22	11,174

11. Investments in associates

	30th June 2019 HK$M	31st December 2018 HK$M
Share of net assets		
– listed in Hong Kong	**19,604**	20,821
– unlisted	**3,109**	3,115
Goodwill	**3,334**	3,337
	26,047	27,273
Loans due from associates	**296**	297
	26,343	27,570

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

12. Long-term liabilities

	30th June 2019		31st December 2018	
	Current HK$M	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	**12,115**	**39,287**	9,734	40,952
Lease liabilities	**6,674**	**32,665**	3,960	19,231
	18,789	**71,952**	13,694	60,183

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

13. Other long-term payables

Other long-term payables include a maintenance provision for returning the aircraft to lessors to certain maintenance conditions, the long-term portion of derivative financial liabilities and other deferred liabilities.

14. Trade, other receivables and other assets

	30th June 2019 HK$M	31st December 2018 HK$M
Trade debtors, net of loss allowances	**6,312**	6,559
Derivative financial assets – current portion	**623**	499
Other receivables and prepayments	**5,301**	5,343
Due from associates and other related companies	**130**	74
	12,366	12,475

	30th June 2019 HK$M	31st December 2018 HK$M
Analysis of trade debtors (net of loss allowances) by invoice date:		
Within one month	**5,687**	5,009
One to three months	**344**	1,166
More than three months	**281**	384
	6,312	6,559

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.

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

15. Liquid funds

	30th June 2019 HK$M	31st December 2018 HK$M
Short-term deposits and bank balances	**5,022**	7,672
Short-term deposits maturing beyond three months when placed	**2,265**	2,488
Funds with investment managers		
– debt securities listed outside Hong Kong	**5,030**	4,963
– bank deposits	**43**	27
Other liquid investments		
– debt securities listed outside Hong Kong	**6**	5
– bank deposits	**162**	160
	12,528	15,315

Included in other liquid investments are bank deposits of HK$162 million (31st December 2018: HK$160 million) and debt securities of HK$6 million (31st December 2018: HK$5 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.

16. Trade and other payables

	30th June 2019 HK$M	31st December 2018 HK$M
Trade creditors	**6,795**	6,801
Derivative financial liabilities – current portion	**437**	1,218
Other payables	**11,235**	11,017
Due to associates	**168**	179
Due to other related companies	**155**	193
	18,790	19,408

	30th June 2019 HK$M	31st December 2018 HK$M
Analysis of trade creditors by invoice date:		
Within one month	**6,292**	6,425
One to three months	**426**	337
More than three months	**77**	39
	6,795	6,801

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

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

17. Share capital

	30th June 2019		31st December 2018	
	Number of shares	**HK$M**	Number of shares	HK$M
Issued and fully paid				
At 30th June / 31st December	**3,933,844,572**	**17,106**	3,933,844,572	17,106

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the period (2018: nil). At 30th June 2019, 3,933,844,572 shares were in issue (31st December 2018: 3,933,844,572 shares).

18. Dividends

(a) Dividends payable to equity shareholders attributable to the interim period.

	2019 HK$M	2018 HK$M
Interim dividend declared and paid after the interim period of HK$0.18 per share (2018: HK$0.10 per share)	**708**	393

The interim dividend has not been recognised as a liability at the end of the reporting period.

18. Dividends (continued)

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period.

	Six months ended 30th June	
	2019 HK$M	2018 HK$M
Interim dividend in respect of the previous financial year, approved and paid during the six months ended 30th June 2019, of HK$0.20 per share (paid during the six months ended 30th June 2018: HK$0.05 per share)	**787**	197

The Directors have declared a first interim dividend of HK$0.18 per share (2018: HK$0.10 per share) for the year ending 31st December 2019. The interim dividend which totals HK$708 million (2018: HK$393 million) will be paid on 3rd October 2019 to shareholders registered at the close of business on the record date, being Friday, 6th September 2019. Shares of the Company will be traded ex-dividend as from Wednesday, 4th September 2019. This interim dividend has not been recognised as a liability at the reporting date.

The register of members will be closed on Friday, 6th September 2019, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first 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, 5th September 2019.

19. 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 2019		Six months ended 30th June 2018	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Revenue	**249**	**13**	223	1
Aircraft maintenance	**653**	**1,360**	643	1,285
Other operating expenses	**389**	**153**	373	139
Dividend income	**375**	**45**	441	41
Finance income	**6**	**–**	18	–
Property, plant and equipment purchase	**61**	**–**	–	–

Other related parties are companies under control of a company which has significant influence on the Group.

20. Capital commitments and contingencies

(a) Outstanding capital commitments authorised at the end of the period but not provided for in the financial statements:

	30th June 2019 HK$M	31st December 2018 HK$M
Authorised and contracted for	**67,185**	73,896
Authorised but not contracted for	**2,213**	2,579
	69,398	76,475

20. Capital commitments and contingencies (continued)

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

	30th June 2019 HK$M	31st December 2018 HK$M
Associates	**2,246**	2,473

(c) 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.

(d) The Company remains the subject of antitrust proceedings in various jurisdictions. The proceedings are focused on issues relating to pricing and competition. The Company is represented by legal counsel in connection with these matters.

The 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 20 on page 117 in the 2018 Annual Report.

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 cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57.12 million on the Company. However, the European Commission's finding against the Company and the imposition of this fine was annulled by the General Court in December 2015 and the fine of Euros 57.12 million was refunded to the Company in February 2016. The European Commission issued a new decision against the Company and the other airlines involved in the case in March 2017. A fine of Euros 57.12 million was imposed on the Company, which was paid by the Company in June 2017. The Company filed an appeal against this latest decision, to which the Commission filed a defence. In December 2017, the Company filed a Reply to this Defence. On 9th March 2018, the European Commission filed a rejoinder to the Company's Reply. The appeal hearing in the General Court took place on 5th July 2019. There is no fixed date for the General Court to issue its decision and it may be a matter of some months before it does so.

The Company is a defendant in a number of civil claims, including class litigation and third party contribution claims, in a number of countries including Germany, the Netherlands, Norway and Korea alleging violations of applicable competition laws arising from the Company's alleged conduct relating to its air cargo operations. The Company is represented by legal counsel and is defending these actions.

21. Financial risk management

(a) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values at 30th June 2019 and 31st December 2018 except for the following financial instruments, for which their carrying amounts and fair values are shown below:

	30th June 2019		31st December 2018	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Long-term loans	**(51,402)**	**(53,310)**	(50,686)	(52,496)

These financial instruments are measured using quoted prices in active markets for similar assets or liabilities, or using valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates.

(b) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 30th June 2019 across three levels of the fair value hierarchy defined in HKFRS 13 "Fair Value Measurement" with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using only unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using input other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value has been determined based on quotes from market makers or discounted cash flow valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using discounted cash flow valuation techniques in which any significant input is not based on observable market data.

	30th June 2019				31st December 2018			
	Level 1 HK$M	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement								
Assets								
Unlisted equity investments at fair value	**–**	**–**	**790**	**790**	–	–	765	765
Liquid funds								
– funds with investment managers	**–**	**5,030**	**–**	**5,030**	–	4,963	–	4,963
– other liquid investments	**–**	**6**	**–**	**6**	–	5	–	5
Derivative financial assets	**–**	**2,251**	**–**	**2,251**	–	2,359	–	2,359
	–	**7,287**	**790**	**8,077**	–	7,327	765	8,092
Liabilities								
Financial liabilities designated at fair value through profit or loss	**–**	**(1,511)**	**–**	**(1,511)**	–	(1,567)	–	(1,567)
Derivative financial liabilities	**–**	**(971)**	**–**	**(971)**	–	(2,059)	–	(2,059)
	–	**(2,482)**	**–**	**(2,482)**	–	(3,626)	–	(3,626)

There were no transfers between Level 1 and Level 2 or transfers into or out of Level 3 fair value hierarchy classifications.

21. Financial risk management (continued)

The fair value of the unlisted equity investments in Level 3 is determined using a discounted cash flow valuation technique. The significant unobservable input used in the fair value measurement is the discount rate. At 30th June 2019 and 31st December 2018, information about fair value measurements using significant unobservable inputs (Level 3) is as follows:

Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	(Negative)/positive impact on fair value (HK$M)
Unlisted equity investments				
Discount rate	2019: 8.2-8.5% (2018: 8.5%)	The higher the discount rate, the lower the fair value	2019: +/- 0.5% (2018: +/- 0.5%)	2019: (19)/21 (2018: (17)/18)

The movement during the six months ended 30th June 2019 in the balance of Level 3 fair value measurements is as follows:

	Six months ended 30th June	
	2019 HK$M	2018 HK$M
Unlisted equity investments at fair value		
At 1st January	**765**	722
Net unrealised gains recognised in other comprehensive income during the period	**25**	–
At 30th June	**790**	722

22. Comparative figures

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2 above.

23. Event after the reporting period

On 19th July 2019, Cathay Pacific completed the acquisition of 100% of the share capital of Hong Kong Express Airways Limited (Hong Kong Express), Hong Kong's only low cost carrier. Hong Kong Express currently operates a fleet of 24 modern Airbus A320, A320-neo and A321 aircraft (all held under leases) and provides scheduled air services to 27 destinations in Asia. The total consideration of HK$4.93 billion, which comprises cash of HK$2.25 billion and a novated loan note of HK$2.68 billion, is subject to completion adjustments as previously announced. Completion accounts are being prepared.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Corporate governance

The Company complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the 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 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 of the Company 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 2019 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. Irene Lee retired as an Independent Non-Executive Director of the Company at the conclusion of the 2019 annual general meeting held on 15th May 2019.
2. Robert Milton was appointed as an Independent Non-Executive Director of the Company with effect from the conclusion of the 2019 annual general meeting held on 15th May 2019.

Directors' interests

At 30th June 2019, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interests in the shares of Cathay Pacific Airways Limited and its associated corporation (within the meaning of Part XV of the SFO), Air China Limited:

	Capacity	No. of shares	Percentage of voting shares (%)
Cathay Pacific Airways Limited			
Michelle Low	Personal	1,000	0.00003
Air China Limited			
Michelle Low	Personal	40,000	0.00028

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

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2019 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	Long position	No. of shares	Percentage of voting shares (%)	Type of interest (Note)
1.	Air China Limited	2,949,997,987	74.99	Attributable interest (a)
2.	China National Aviation Holding Company Limited	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)
5.	Qatar Airways Group Q.C.S.C.	392,991,000	9.99	Beneficial interest (d)

Note: At 30th June 2019:

(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 Limited was 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 were deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group being interested in 55.12% of the equity of Swire Pacific and controlling 64.12% of the voting rights attached to shares in Swire Pacific.

(d) Qatar Airways Group Q.C.S.C. held a total of 392,991,000 shares of the Company as beneficial owner.

Disclaimer

This document may contain certain forward-looking statements that reflect the Company's beliefs, plans or expectations about the future or future events. These forward-looking statements are based on a number of assumptions, current estimates and projections, and are therefore subject to inherent risks, uncertainties and other factors beyond the Company's control. The actual results or outcomes of events may differ materially and/or adversely due to a number of factors, including changes in the economies and industries in which the Group operates (in particular in Hong Kong and Mainland China), macro-economic and geopolitical uncertainties, changes in the competitive environment, foreign exchange rates, interest rates and commodity prices, and the Group's ability to identify and manage risks to which it is subject. Nothing contained in these forward-looking statements is, or shall be, relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. Neither the Company nor its directors, officers, employees, agents, affiliates, advisers or representatives assume any responsibility to update these forward-looking statements or to adapt them to future events or developments or to provide supplemental information in relation thereto or to correct any inaccuracies.

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www.format.com.hk
Printed in Hong Kong

FSC MIX Paper from responsible sources FSC™ C023053 www.fsc.org

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