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CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00293)

Announcement
2012 Interim Results

Financial and Operating Highlights

Group Financial Statistics

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

Operating Statistics – Cathay Pacific and Dragonair

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

Capacity, load factor and yield - Cathay Pacific and Dragonair

	Capacity ASK/ATK (million)#			Load factor (%)			Yield
	2012	2011	**Change**	**2012**	2011	**Change**	**Change**
Passenger services							
India, Middle East, Pakistan and Sri Lanka	**5,605**	5,546	**+1.1%**	**77.3**	75.9	**+1.4%pt**	**+3.9%**
Southeast Asia	**8,612**	7,714	**+11.6%**	**80.3**	82.7	**-2.4%pt**	**+2.0%**
Southwest Pacific and South Africa	**9,482**	9,444	**+0.4%**	**75.2**	73.3	**+1.9%pt**	**+2.4%**
Europe	**10,812**	11,159	**-3.1%**	**84.0**	81.2	**+2.8%pt**	**+2.1%**
North Asia	**13,616**	12,445	**+9.4%**	**72.2**	69.7	**+2.5%pt**	**-1.4%**
North America	**17,224**	14,828	**+16.2%**	**87.4**	89.3	**-1.9%pt**	**-0.3%**
Overall	**65,351**	61,136	**+6.9%**	**80.1**	79.3	**+0.8%pt**	**+1.2%**
Cargo services	**6,729**	7,031	**-4.3%**	**64.3**	68.4	**-4.1%pt**	**-0.4%**

Capacity is measured in available seat kilometres ("ASK") for passenger services and available tonne kilometres ("ATK") for cargo services.

Passenger services

- Increased fuel prices significantly affected the profitability of our passenger services, particular on long-haul routes operated by older, less fuel-efficient aircraft.
- The weakness of a number of key operating currencies relative to the Hong Kong dollar and the US dollar had a negative impact on revenues, particularly in the second quarter.
- Passenger growth was ahead of the increase in capacity.
- Despite careful revenue management, the pressure on economy class yields that began in the second half of 2011 continued in the first half of 2012. This was primarily a result of strong competition on key routes.
- Premium class demand was strong at the beginning of the year. However, as employees of major corporations started to travel less in response to economic uncertainty, there was a reduction in the number of premium class passengers.
- Capacity increased in the first quarter as new aircraft were brought into the fleet. Cathay Pacific and Dragonair added frequencies on regional routes. Dragonair added services to Xi'an in April, to Jeju, Guilin, Taichung and Clark in May and to Chiang Mai in July. Dragonair will introduce services to Kolkata and Haikou later in the year. Given the relative strength of Asian economies and continuing high demand for air travel in the region we will continue to strengthen our services in Asia.
- In May, we announced a reduction in frequencies on some long-haul routes in order to contain costs.
- Demand for leisure travel from Hong Kong was relatively healthy, particularly to Asian destinations. But, passengers are becoming more price-sensitive and are booking later. There was a drop in demand for corporate travel from Hong Kong. This adversely affected revenues, particularly from important routes for premium class travel such as those to New York and Singapore.
- We carried more people between Hong Kong and the Pearl River Delta region. But this business is subject to increasing competition.
- Business to and from Mainland China was generally strong during the first six months of 2012, particularly over Chinese New Year. Demand on the Beijing and Shanghai routes was consistently high. We strengthened services to a number of secondary cities and resumed services to Xi'an and Guilin. We will launch a service to Haikou later in the year.
- Our Taiwan services continued to be affected by the growth in cross-strait traffic and the reduction in traffic from Taipei to Hong Kong. Competition on the Taipei route has been increasing. Nevertheless, the demand for travel from Hong Kong to Taipei held up reasonably well and there was more connecting traffic from Europe. Dragonair resumed flights to Taichung in May.
- We saw good growth in demand on the Korea route in the first quarter, though the market has since softened and competition has increased. We introduced a Dragonair service to Jeju in May.

- Demand on the Japan routes was generally robust, but it was weaker on the Tokyo route than it was before the earthquake and tsunami in March 2011.
- The relative strength of the economies in Southeast Asian countries was reflected in robust passenger demand on routes to those countries except that premium class demand on the Singapore route showed weakness. The Philippines and Vietnam routes performed particularly well. Increased competition had some effect on yields.
- The Australia routes benefited from the strength of the mining industry in Western Australia and an increase in traffic from North Asia connecting to flights to Australia in Hong Kong. However, competition from Mainland China carriers increased. The New Zealand route was weak.
- Business was under pressure on the South Africa routes. There was more business and leisure traffic originating from Japan, but more airlines are flying direct to and from South Africa.
- The India routes benefited from the continued buoyancy of the Indian economy, but yields remain a concern. Later this year we will increase the frequency of flights to Chennai and Dragonair will launch a four-times-weekly service to Kolkata.
- The Middle Eastern routes were affected by strong competition, which put pressure on yields. We reduced the frequency of flights to Abu Dhabi and Bahrain in response to reduced demand.
- The economic instability in Europe had a significant effect on our business. Routes to Continental Europe were generally weak. The London route was relatively stronger, helped by stable demand from students and more robust premium class demand.
- Premium class revenues on the New York route were adversely affected by the state of the financial markets. Economy class load factors were strong on most United States routes. The Chicago route was weak during the winter months, but has since improved. Business on the Canada routes was affected by strong competition and there was a fall in yields.

Cargo services

- Demand for cargo shipments from our two main markets, Hong Kong and Shanghai, remained weak for most of the first half of 2012. The situation was exacerbated by strong competition. Demand was particularly weak on routes to Europe, where economic conditions have affected business and consumer confidence.
- There was a temporary recovery in demand in March when a lot of new hi-tech consumer electronics products were shipped from Mainland China. However, both tonnage and revenue for the month were lower than those of March 2011.
- We managed capacity in line with demand, reducing scheduled freighter services as necessary.
- In Mainland China, the shift of manufacturing, particularly of technology products, from coastal to central and western areas of the country continues. The air cargo market in the western part of Mainland China, where we launched services to Chongqing and Chengdu in late 2011, continues to mature. In March 2012, we began scheduled freighter services to Zhengzhou in Henan Province, in the central part of Mainland China.
- Revenue and tonnage on North Asian routes were lower. Market conditions were challenging, with aggressive competition from Korean, Taiwanese and Japanese carriers.
- Revenue and tonnage on Southeast Asia routes were higher. Demand for shipments into Mainland China was strong. Increased belly capacity in Cathay Pacific's passenger aircraft (as a result of increased frequencies) and in Dragonair's passenger aircraft (as a result of larger aircraft being used on some Mainland China routes) enabled us to benefit from the strong demand.
- Cathay Pacific is the biggest airfreight operator in India, but the market has become more competitive as other carriers shift capacity away from the weak European markets. This has put pressure on tonnage and yields. In May, we introduced a freighter service to Hyderabad and increased the number of flights on the Bengaluru route from two to three a week.
- Against the difficult economic background, cargo business to Europe and North America was poor. We significantly reduced capacity (by reducing frequencies) on routes to both continents.
- High fuel prices had a significant impact on the profitability of our cargo operations, particularly on ultra-long-haul routes.
- In the first half of 2012 we had five of the new Boeing 747-8F freighters operating on transpacific routes. A sixth aircraft was added to the fleet in July. Two more will arrive later in the year and the final two will arrive in 2013. These highly fuel-efficient aircraft have led to a significant improvement in the operating economics of our ultra-long-haul services.
- In May, we announced that we would take three Boeing 747-400BCF converted freighters out of service in order to reduce capacity in the short term. One of these aircraft has since been retired from the fleet.
- The third of four Boeing 747-400BCF converted freighters being sold to our cargo joint venture with Air China was transferred in July, leaving one aircraft remaining to be sold.
- Cargo is a cyclical business. While demand has been weak for some time, we believe that the market will recover at some stage and that Hong Kong will continue to play a leading role as an international airfreight hub. Cathay Pacific's commitment to its home base is demonstrated by its construction of a HK$5.9 billion cargo terminal at Hong Kong International Airport. The facility, which will be one of the biggest and most sophisticated of its kind, is expected to open in early 2013.

CATHAY PACIFIC

Chairman's Letter

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

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

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

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

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

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

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

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

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

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

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

Christopher Pratt

Chairman

Hong Kong, 8th August 2012

CATHAY PACIFIC

Consolidated Statement of Comprehensive Income

for the six months ended 30th June 2012 – Unaudited

	Note	**2012** **HK$M**	2011 HK$M
Turnover			
Passenger services		**34,713**	31,774
Cargo services		**11,897**	12,870
Catering, recoveries and other services		**2,251**	2,147
Total turnover	*2*	**48,861**	46,791
Expenses			
Staff		**(7,956)**	(7,206)
Inflight service and passenger expenses		**(1,979)**	(1,797)
Landing, parking and route expenses		**(6,714)**	(6,259)
Fuel, net of hedging gains		**(20,407)**	(18,564)
Aircraft maintenance		**(4,643)**	(3,760)
Aircraft depreciation and operating leases		**(4,415)**	(4,092)
Other depreciation, amortisation and operating leases		**(669)**	(580)
Commissions		**(388)**	(398)
Others		**(1,911)**	(1,337)
Operating expenses		**(49,082)**	(43,993)
Operating (loss)/profit	*4*	**(221)**	2,798
Finance charges		**(681)**	(849)
Finance income		**300**	535
Net finance charges		**(381)**	(314)
Share of (losses)/profits of associates		**(167)**	861
(Loss)/profit before tax		**(769)**	3,345
Taxation	*5*	**(57)**	(445)
(Loss)/profit for the period		**(826)**	2,900
Non-controlling interests		**(109)**	(92)
(Loss)/profit attributable to owners of Cathay Pacific		**(935)**	2,808
(Loss)/profit for the period		**(826)**	2,900
Other comprehensive income			
Cash flow hedges		**(18)**	519
Revaluation deficit arising from available-for-sale financial assets		**(1)**	(17)
Share of other comprehensive income of associates		**50**	92
Exchange differences on translation of foreign operations		**(182)**	292
Other comprehensive income for the period, net of tax	*6*	**(151)**	886
Total comprehensive income for the period		**(977)**	3,786
Total comprehensive income attributable to			
Owners of Cathay Pacific		**(1,086)**	3,694
Non-controlling interests		**109**	92
		(977)	3,786
(Loss)/earnings per share (basic and diluted)	*7*	**(23.8)¢**	71.4¢

CATHAY PACIFIC

Consolidated Statement of Financial Position

at 30th June 2012 - Unaudited

	Note	**30th June 2012 HK$M**	31st December 2011 HK$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Fixed assets		**77,708**	73,498
Intangible assets		**8,960**	8,601
Investments in associates		**17,183**	17,894
Other long-term receivables and investments		**5,903**	5,783
		109,754	105,776
Long-term liabilities		**(45,203)**	(38,410)
Related pledged security deposits		**1,684**	3,637
Net long-term liabilities		**(43,519)**	(34,773)
Other long-term payables		**(2,692)**	(2,612)
Deferred taxation		**(6,768)**	(6,797)
		(52,979)	(44,182)
Net non-current assets		**56,775**	61,594
Current assets and liabilities			
Stock		**1,179**	1,155
Trade, other receivables and other assets	*9*	**10,209**	9,859
Assets held for sale	*10*	**719**	746
Liquid funds		**20,022**	19,597
		32,129	31,357
Current portion of long-term liabilities		**(8,653)**	(10,603)
Related pledged security deposits		**2,600**	2,041
Net current portion of long-term liabilities		**(6,053)**	(8,562)
Trade and other payables	*11*	**(17,899)**	(17,464)
Unearned transportation revenue		**(10,182)**	(9,613)
Taxation		**(1,256)**	(1,368)
		(35,390)	(37,007)
Net current liabilities		**(3,261)**	(5,650)
Total assets less current liabilities		**106,493**	100,126
Net assets		**53,514**	55,944
CAPITAL AND RESERVES			
Share capital	*12*	**787**	787
Reserves		**52,598**	55,022
Funds attributable to owners of Cathay Pacific		**53,385**	55,809
Non-controlling interests		**129**	135
Total equity		**53,514**	55,944

CATHAY PACIFIC

Notes:

1. Basis of preparation and accounting policies

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard HKAS 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants. It was authorised for issue on 8th August 2012.

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

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

2. Turnover

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

3. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M
Sales to external customers	**48,340**	46,308	**521**	483			**48,861**	46,791
Inter-segment sales	**4**	4	**857**	769			**861**	773
Segment revenue	**48,344**	46,312	**1,378**	1,252			**49,722**	47,564
Segment results	**(292)**	2,715	**71**	83			**(221)**	2,798
Net finance charges	**(378)**	(311)	**(3)**	(3)			**(381)**	(314)
	(670)	2,404	**68**	80			**(602)**	2,484
Share of (losses)/profits of associates					**(167)**	861	**(167)**	861
(Loss)/profit before tax	**(670)**	2,404	**68**	80	**(167)**	861	**(769)**	3,345
Taxation	**(41)**	(432)	**(16)**	(13)			**(57)**	(445)
(Loss)/profit for the period							**(826)**	2,900

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

The major revenue earning asset is the aircraft fleet, which is used both for 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.

3. Segment information (continued)

(b) Geographical information

	Six months ended 30th June	
	2012	2011
	HK$M	HK$M
Turnover by origin of sale:		
North Asia		
- Hong Kong and Mainland China	**21,366**	20,206
- Japan, Korea and Taiwan	**6,384**	6,343
India, Middle East, Pakistan and Sri Lanka	**2,268**	2,333
Southeast Asia	**3,956**	3,407
Southwest Pacific and South Africa	**3,494**	3,391
Europe	**4,415**	4,641
North America	**6,978**	6,470
	48,861	46,791

India, Middle East, Pakistan and Sri Lanka includes the Indian sub-continent, the Middle East, Pakistan, Sri Lanka and Bangladesh. Southeast Asia includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam and Cambodia. Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. Europe includes continental Europe, the United Kingdom, Scandinavia, Russia, the Baltic states and Turkey. North America includes U.S.A., Canada and Latin America. A geographic analysis of segment results is not disclosed for the reasons set out in the 2011 Annual Report.

4. Operating (loss)/profit

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

5. Taxation

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

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 21(d) to the accounts in the 2012 Interim Report).

6. Other comprehensive income

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

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

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

8. Dividends

No interim dividends were declared by the Board of Directors (2011: HK¢18 per share) for the period ended 30th June 2012.

9. Trade, other receivables and other assets

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

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

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

10. Assets held for sale

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

11. Trade and other payables

	30th June 2012 HK$M	31st December 2011 HK$M
Trade creditors	**7,282**	7,663
Derivative financial liabilities – current portion	**1,282**	1,182
Other payables	**9,066**	8,318
Due to associates	**33**	49
Due to other related companies	**234**	252
Bank overdrafts – unsecured	**2**	-
	17,899	17,464

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

12. Share capital

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

13. Related party transactions

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

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

14. Event after the reporting period

In August 2012, a supplementary agreement was entered into under which a wholly owned subsidiary of the Company agreed to convert an existing order for 16 Airbus A350-900 aircraft into larger Airbus A350-1000 aircraft and exercised an option to purchase an additional 10 Airbus A350-1000 aircraft. The catalogue price of converting the 16 aircraft and acquiring the 10 aircraft is approximately HK$34,022 million. The actual purchase price, which was determined after arm's length negotiations between the parties, is lower than the catalogue price.

15. Corporate governance

Cathay Pacific Airways is committed to maintaining a high standard of corporate governance and devotes considerable effort to identifying and formalising best practices of corporate governance. The Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the interim report with the following exceptions which it believes do not benefit shareholders:

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

The 2012 interim result has been reviewed by the Audit Committee of the Company and by the external auditors. Details on Corporate Governance can be found in the 2011 Annual Report and in the 2012 Interim Report.

16. Interim report

The 2012 Interim Report containing all the information required by the Listing Rules will be published on the Stock Exchange website and the Company website www.cathaypacific.com on or before 23rd August 2012. Printed copies will be sent to shareholders who have elected to receive printed copies on 24th August 2012.

Operating expenses

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

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

Cathay Pacific and Dragonair operating results analysis

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

Cathay Pacific and Dragonair operating results analysis (continued)

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

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

Fuel expenditure and hedging

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

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

Financial position

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

Fleet profile *

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

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

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

Review of other subsidiaries and associates

- Air Hong Kong Limited achieved an increase in profit in the first half of 2012 compared with the first half of 2011.
- Cathay Pacific Catering Services (H.K.) Limited reported an increase in profit in the first half of 2012 compared to the first half of 2011 mainly due to growth in the number of meals produced.
- The financial results of Hong Kong Airport Services Limited for the first half of 2012 deteriorated compared to those of the first half of 2011. The deterioration primarily reflected cost increases and competition.
- The Group's share of Air China Limited's ("Air China") results is based on its accounts drawn up three months in arrear and consequently the 2012 interim results include Air China's results for the six months ended 31st March 2012. The Group recorded a decrease in profit from Air China's results in the first half of 2012. This primarily reflected reduced demand, increased fuel costs and unfavourable exchange rate movements.
- Air China Cargo Limited ("Air China Cargo"), in which Cathay Pacific owns an equity and an economic interest, is the leading provider of cargo services in Mainland China. The Group recorded an increase in loss from Air China Cargo's results in the first half of 2012. This was mainly due to the weak demand in the air cargo markets.

Corporate Responsibility

- Our Sustainable Development Report 2011 was published on a dedicated, interactive website in June. The 2011 report, entitled "En route to Sustainability", covers our financial, environmental and social performance in 2011, and includes sections under the five priority areas of our sustainable development strategy: Operating Our Flights; Managing Our Infrastructure; Interacting with Customers; Working with Our Supply Chain; and Investing in People and Communities.
- Cathay Pacific continues to work with organisations like the International Civil Aviation Organisation with a view to increasing awareness of climate change and to developing appropriate solutions for the aviation industry.
- While Cathay Pacific supports emissions trading as one of the interim solutions to reduce aviation's emissions, we do not support the imposition of the European Union's Emissions Trading Scheme (EU ETS) to carriers based outside of Europe. We have been calling for aviation emissions to be regulated under a global sectoral scheme under the UN's International Civil Aviation Organisation. However, despite our strong opposition, we have been working in full compliance with the EU ETS regulation. As required under the scheme, our emissions data were externally verified. In March, we submitted our emissions report for 2011 to the UK Environment Agency.
- Cathay Pacific continued to support UNICEF through its "Change for Good" inflight fundraising programme. Passengers donated more than HK$12.9 million to the programme in 2011. Since the "Change for Good" programme was launched in 1991, the airline has contributed more than HK$120 million to help to improve the lives of disadvantaged children around the world.
- At the end of June, the Cathay Pacific Group employed some 29,800 people worldwide. More than 22,000 of these staff are based in Hong Kong. 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.

Extract of the Audit Review Report

The Company's auditor has qualified the Group's consolidated financial statement for the period ended 30th June 2012, an extract of which is as follows:

Basis for qualified conclusion

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

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

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

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

Qualified conclusion

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

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

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

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

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

By Order of the Board
Cathay Pacific Airways Limited
Christopher Pratt
Chairman
Hong Kong, 8th August 2012

Website: http://www.cathaypacific.com