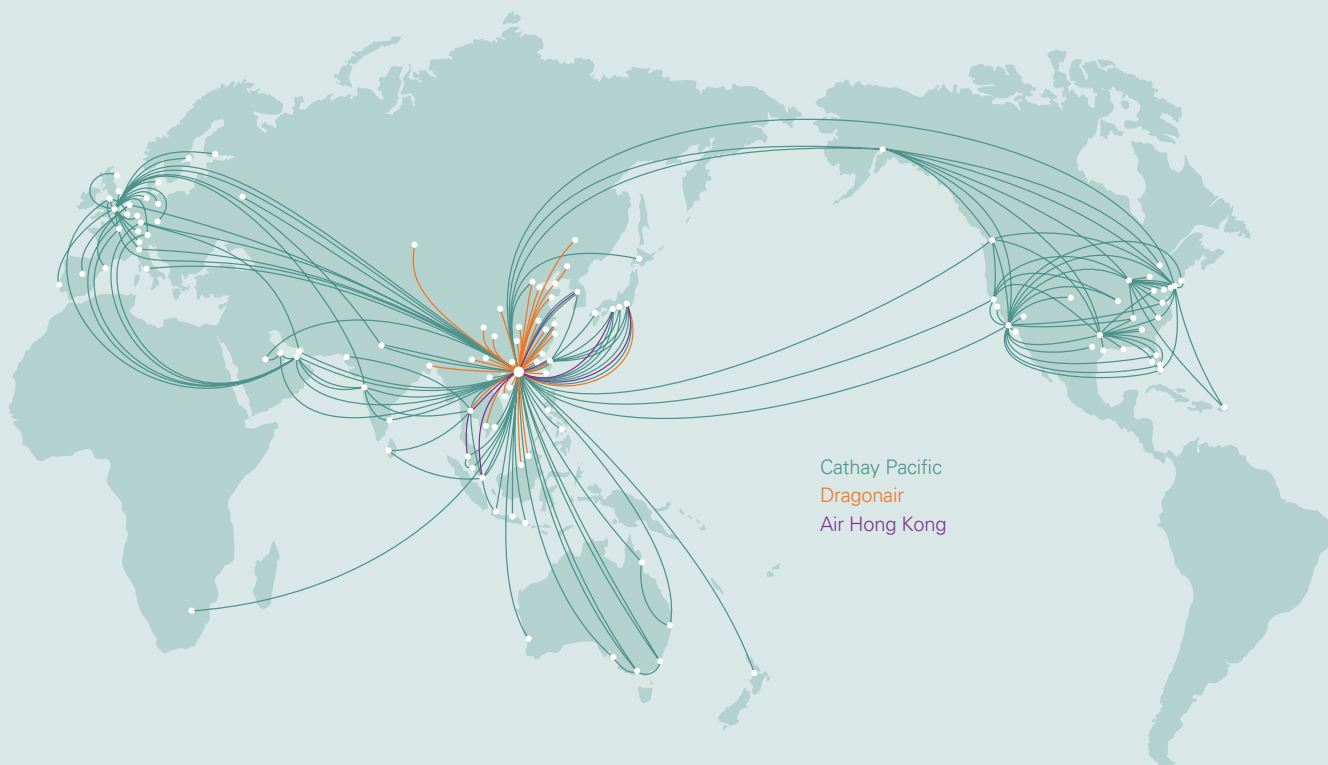




## **Cathay Pacific Airways Limited**

2006 INTERIM REPORT



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## CORPORATE INFORMATION

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

## INVESTOR RELATIONS

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<http://www.cathaypacific.com>

**Cathay Pacific Airways is an international airline registered and based in Hong Kong, offering scheduled cargo and passenger services to 92 destinations around the world.**

We are deeply committed to Hong Kong, where the Company was founded in 1946, and continue to make substantial investments to develop Hong Kong's aviation industry and enhance Hong Kong's position as a global transportation hub. In addition to our fleet of 98 wide-bodied aircraft, these investments include catering, aircraft maintenance and ground handling companies, as well as our corporate headquarters at Hong Kong International Airport. Cathay Pacific and its subsidiaries and associates employ over 23,000 staff in Hong Kong. The airline's major shareholders are Hong Kong companies listed on the Hong Kong Stock Exchange, as is Cathay Pacific itself.

Cathay Pacific is a shareholder in AHK Air Hong Kong Limited ("AHK"), an all cargo carrier that offers scheduled services in the Asian region, Air China Limited ("Air China") and Hong Kong Dragon Airlines Limited ("Dragonair") and has announced plans to make Dragonair a wholly owned subsidiary.

We are a founding member of the **oneworld** global alliance whose combined network serves some 600 destinations worldwide.

# FINANCIAL AND OPERATING HIGHLIGHTS

## GROUP FINANCIAL STATISTICS

		2006	2005	
		Six months ended 30th June		Change
<b>Results</b>				
Turnover	<i>HK\$ million</i>	27,086	23,884	+13.4%
Profit attributable to Cathay Pacific shareholders	<i>HK\$ million</i>	1,668	1,670	-0.1%
Earnings per share	<i>HK cents</i>	49.3	49.5	-0.4%
Dividend per share	<i>HK cents</i>	20.0	20.0	–
Profit margin	%	7.3	7.8	-0.5%pt
<b>Balance Sheet</b>				
		30th June	31st December	
Funds attributable to Cathay Pacific shareholders	<i>HK\$ million</i>	36,343	34,968	+3.9%
Net borrowings	<i>HK\$ million</i>	7,577	9,050	-16.3%
Shareholders' funds per share	<i>HK\$</i>	10.7	10.3	+3.9%
Net debt/equity ratio	<i>Times</i>	0.21	0.26	-0.05 times

## OPERATING STATISTICS – CATHAY PACIFIC

		2006	2005	
		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	<i>Million</i>	9,126	8,446	+8.1%
Passengers carried	<i>'000</i>	8,144	7,333	+11.1%
Passenger load factor	%	79.1	78.1	+1.0%pt
Passenger yield	<i>HK cents</i>	45.8	47.2	-3.0%
Cargo carried	<i>'000 tonnes</i>	573	518	+10.6%
Cargo and mail load factor	%	67.7	65.9	+1.8%pt
Cargo and mail yield	<i>HK\$</i>	1.69	1.75	-3.4%
Cost per ATK	<i>HK\$</i>	2.19	2.19	–
Cost per ATK without fuel	<i>HK\$</i>	1.56	1.58	-1.3%
Aircraft utilisation	<i>Hours per day</i>	12.7	12.6	+0.8%
On-time performance	%	87.7	86.9	+0.8%pt

## CHAIRMAN'S LETTER

In the first six months of our 60th anniversary, the Group made an attributable profit to shareholders of HK\$1,668 million. This was a creditable performance given that the average price of fuel into plane increased by 28.5% to US\$2.0 per American gallon.

Turnover was HK\$27,086 million, up 13.4% from HK\$23,884 million last year. The number of passengers carried increased 11.1% to 8.1 million, compared with a 10.8% increase in capacity. Passenger yield declined 3.0% to HK45.8 cents despite strong demand from first and business class passengers. Demand for cargo services out of Hong Kong was also strong. Cargo tonnage carried increased 10.6% to 572,552 tonnes. Cargo yield was HK\$1.69, down from HK\$1.75 last year.

Our fuel expenditure increased by 30.4% to HK\$8,681 million. Fuel surcharges levied only offset part of our increased fuel cost. Our unit cost excluding fuel fell 1.3% as we reduced costs and made continued progress in improving productivity.

Foremost amongst our expansion plans is to make Dragonair a wholly owned subsidiary, which will create significant value. As part of these plans Air China is to become a shareholder in the Group, and we will increase our existing stake in Air China.

As previously announced we wish to build and operate our own cargo terminal at Hong Kong International Airport with an eventual planned annual capacity of five million tonnes. This will enable us to pursue our aggressive cargo growth plans, make significant cost savings, introduce product innovation and strengthen Hong Kong's position as a global logistics hub.

Fleet expansion continues apace. Following our biggest new aircraft order in December 2005 for 16 Boeing 777-300ERs we exercised part of our previously announced purchase rights by ordering a further two aircraft for delivery in 2009. Our order for this aircraft type increased to 18. We also ordered six new Boeing 747-400ERF, Extended Range Freighters, for delivery in 2008 and 2009.

In July, we took delivery of a Boeing 777-300 and our second Boeing 747-400BCF, Boeing Converted Freighter. A third converted freighter is due in September. Three more will arrive in 2007 and conversion options remain on a further six. Our 100th aircraft, an Airbus A330-300, will arrive this month.

Additional services continue to strengthen our network. We commenced a freighter service to Chennai and increased our frequency to Atlanta, Dallas, Delhi, Mumbai, Penang and Singapore. The inclusion of Stockholm and Toronto from September will bring to 30 the number of destinations in our freighter network. Additional passenger services were mounted to Adelaide, Frankfurt, Rome and Seoul.

Our expansion plans show the confidence we have in our future and in the future of Hong Kong. Our full-year results, which should benefit from the acquisition of Dragonair, will continue to be heavily influenced by the price of fuel and related surcharges. We remain single-minded in our mission to deliver superior service and value to our customers, to grow our business profitably and to strengthen Hong Kong as a global hub and gateway to Mainland China.

**Christopher Pratt**

*Chairman*

Hong Kong, 9th August 2006

## 2006 INTERIM REVIEW

Despite the continued high fuel prices, we have continued to invest in our product, services, aircraft and infrastructure. As announced we plan for Dragonair to become a wholly owned subsidiary which will further strengthen Hong Kong's position as a global aviation hub and, in addition, we are to increase our shareholding in Air China from 10% and Air China is to become a 17.5% shareholder in Cathay Pacific. These steps will create one of the world's strongest airline groupings.

### AWARD WINNING PRODUCTS AND SERVICES

- Cathay Pacific was named "Airline of the Year 2006" by both *Air Transport World* magazine and OAG. With these awards we held four "Airline of the Year" awards concurrently, with recognition also from respected travel industry magazine TTG Asia and Skytrax Research.
- We were, for the second consecutive year, named the "Best Inflight Travel Retailer in Asia Pacific" by travel retail publisher Raven Fox.
- Our airport staff won four Customer Service Excellence Awards from the Hong Kong Association for Customer Service Excellence, including a Gold Award for Field & Special Service.
- Our Hong Kong lounges, The Wing and The Pier, won "Best Airport Lounge" in the South China Morning Post and Harper's Bazaar Style Awards.
- Cathay Pacific's "I Scream" TV commercial took the top honour at the "12th Annual Most Popular TV Commercial Awards" organised by Asia Television and the Hong Kong Advertisers Association.

### HUB DEVELOPMENT

- We commenced a new freighter service to Chennai and increased our frequency to Atlanta, Dallas, Delhi, Mumbai, Penang and Singapore.

- Stockholm and Toronto will join the freighter network from September, bringing the number of destinations to 30.
- Additional passenger services were mounted to Adelaide, Frankfurt, Rome and Seoul.
- We plan to build and operate the world's largest cargo terminal at Hong Kong International Airport, strengthening its status as a global logistics hub. It will have an annual capacity of up to five million tonnes. Subject to a successful tendering, the first phase would be completed in 2009.
- Our revised shareholding in Dragonair will enable us to connect our international network to Dragonair's short haul services to Mainland China and other secondary regional destinations.
- In addition, our close relationship with Air China will further the development of both Hong Kong and Beijing as gateways and hubs for Mainland China.

### THE GROWING FLEET

- We exercised part of our previously announced purchase rights for additional Boeing 777-300ER aircraft by committing to purchase two more. Our order for this aircraft increased to 18. They will be delivered between September 2007 and June 2010.
- We ordered six new Boeing 747-400ERF freighters for delivery in 2008 and 2009.
- In July, we took delivery of a Boeing 777-300 and our second Boeing 747-400BCF. A third is due in September.
- Another three converted freighters will arrive in 2007 and we have conversion options on six more.
- Our 100th aircraft, an Airbus A330-300, will arrive this month.

## FLEET PROFILE

Aircraft type	Number as at 30th June 2006				Firm orders				Expiry of operating leases				Purchase rights
	Owned	Leased		Total	'06	'07	'08 and beyond	Total	'07	'08	'11	'12	
		Finance	Operating										
<b>Aircraft operated by Cathay Pacific:</b>													
747-400	21		3	24 <sup>(a)</sup>	2 <sup>(b)</sup>	3 <sup>(c)</sup>		5	1			2	
747-200F	4	3		7									
747-400F	2	4		6									
747-400BCF	1			1									
747-400ERF							6	6					
777-200	1	4		5									
777-300	1	10		11	1			1					
777-300ER						5 <sup>(d)</sup>	13 <sup>(d)</sup>	18				20 <sup>(e)</sup>	
A330-300	3	20	3	26	1	2	3 <sup>(f)</sup>	6			3		
A340-300		11	4	15							4		
A340-600			3	3					2	1			
<b>Total</b>	<b>33</b>	<b>52</b>	<b>13</b>	<b>98</b>	<b>4</b>	<b>10</b>	<b>22</b>	<b>36</b>	<b>3</b>	<b>1</b>	<b>7</b>	<b>2</b>	<b>20</b>
<b>Aircraft operated by AHK:</b>													
A300-600F	2	6		8									

(a) Three aircraft under reconfiguration.

(b) One aircraft on 9 year operating lease.

(c) Two aircraft on 8 and 9 year operating leases.

(d) Two aircraft on 10 year operating leases.

(e) Purchase rights for aircraft delivered by 2017.

(f) Aircraft on 7.5 year operating leases.

– Our all-cargo subsidiary AHK took delivery of its seventh and eighth Airbus A300-600F general freighters in May and June.

## PIONEER IN TECHNOLOGY

- We are a leader in the development of self-service check-in through the internet and at airport kiosks, which provide improved customer service and greater efficiency.
- Passenger e-ticket arrangements are now in place with all existing oneworld partners. Other airlines are being added.
- All e-ticket holders are now entitled to check-in and select the seat of their choice online.

– A new version of our website, cathayair.com, was launched offering passengers greater navigation convenience and access to a more sophisticated ticket booking engine.

– Cathay Pacific is pioneering the introduction of paperless cargo, the e-ticket equivalent for the air freight industry.

## PARTNERSHIPS

- Japan Airlines formally joined the oneworld alliance, of which we are a founding member.
- Hungary's Malev and Royal Jordanian Airlines have also formally expressed their intention to join oneworld.
- Dublin-based Aer Lingus, another oneworld founding member, has decided to leave the alliance in 2007.

## ENVIRONMENT

- Our 2005 Environment Report was published in March and is now available online at [www.cathaypacific.com](http://www.cathaypacific.com).
- We continue to improve fuel efficiency through fuel saving practices, such as investment in new and fuel efficient aircraft. Our Climate Change Task Group is working towards the development of a formalised position on climate change.
- We began an initiative to collect aluminium cans and plastic bottles on all inbound flights for recycling starting March 2006.
- The Asian Waterbird Conservation Fund was officially launched by The World Wide Fund for Nature (WWF). This was established thanks for an initial donation of HK\$500,000 by Cathay Pacific.

## CONTRIBUTION TO THE COMMUNITY

- We concluded our second 15-month “I Can Fly” aviation and community service programme, in which 1,000 local youngsters took part.
- We sponsored major cultural and sporting events in Hong Kong including the International Chinese New Year Night Parade, the Rugby Sevens and Hong Kong International Races.

- Cathay Pacific remains a leading sponsor of the Life Education Activity Programme, LEAP, which teaches young people about the dangers of drug abuse and promotes healthy lifestyles. LEAP reaches 80,000 students in more than 160 schools each year.
- Our Change for Good collections for UNICEF, the United Nations Children’s Fund, have raised more than HK\$62 million since 1991. A portion goes to the Cathay Pacific Wheelchair Bank.

## COMMITMENT TO STAFF

- Cathay Pacific and its subsidiaries and associates employ over 34,400 people worldwide. More than 11,500 Cathay Pacific staff are Hong Kong-based and a further 11,800 work for local associates, making the Cathay Pacific Group one of Hong Kong's biggest employers.
- We hired our 2,000th pilot and our 7,000th cabin crew.
- We review our human resource and remuneration policies regularly in the light of local legislation, industry practice, market conditions and the performance of both individuals and the Company.



# REVIEW OF OPERATIONS

## CATHAY PACIFIC AIRWAYS LIMITED

### Passenger services

Available seat kilometres ("ASK"), load factor and yield by region:

	ASK (million)			Load factor (%)			Yield
	2006	2005	Change	2006	2005	Change	Change
North Asia	6,822	6,365	+7.2%	70.0	69.6	+0.4%pt	-5.7%
South West Pacific and South Africa	7,096	7,310	-2.9%	77.9	72.6	+5.3%pt	-3.0%
South East Asia and Middle East	8,991	8,352	+7.7%	74.9	72.6	+2.3%pt	+1.5%
Europe	9,108	7,593	+20.0%	83.2	87.3	-4.1%pt	-6.0%
North America	11,797	9,915	+19.0%	84.9	85.2	-0.3%pt	+0.5%
Overall	43,814	39,535	+10.8%	79.1	78.1	+1.0%pt	-3.0%

- Passenger revenue increased 8.7% to HK\$15,941 million, a record for the first six months of the year.
- We carried 8.1 million passengers, an 11.1% increase from 7.3 million passengers carried last year.
- Passenger yield declined 3.0% to HK45.8 cents.
- Demand from first and business class passengers remained strong. Competition, particularly on long haul routes, caused yield in economy class to fall.
- Additional services were mounted to Adelaide, Frankfurt, Rome and Seoul.
- North America was our highest sales region outside Hong Kong.
- Regional fifth-freedom flights faced continued competition from budget carriers.
- In South East Asia, sales improved and load factors were up. Services to India, Philippines and Thailand showed encouraging performances.
- Taiwan remained strong despite continued pricing pressures.
- Australia performed satisfactorily in the face of strong competition on connecting services to Europe.
- Despite increased capacity, load factors on European flights, including London, remained high. Yields, however, came under pressure.

### Cargo services

	ATK (million)			Load factor (%)			Yield
	2006	2005	Change	2006	2005	Change	Change
Cathay Pacific	4,959	4,685	+5.8%	67.7	65.9	+1.8%pt	-3.4%

- In the first six months of the year we carried 572,552 tonnes of freight, a 10.6% improvement on last year. There was a sharp increase in transshipment tonnage.
- Cargo revenue increased 4.9% with sustained growth in the shipment of goods from Hong Kong.
- Cargo capacity increased 5.8%, the average load factor was 67.7% and yield declined to HK\$1.69.
- We plan to build a self-handling cargo terminal at Hong Kong International Airport. With an annual capacity of up to five million tonnes it will be the world's largest facility. It will save costs and enable Cathay Pacific Cargo to provide new service and products to customers.
- We launched a new freighter service to Chennai in June and increased our frequency to Atlanta, Dallas, Delhi, Mumbai, Penang and Singapore.
- Stockholm and Toronto will join our network from September, bringing the number of destinations in our freighter network to 30.
- Two wet-leased freighters were returned to Air Atlanta Icelandic and Southern Air Inc. at the end of March and June.
- We took delivery of our second Boeing 747-400BCF. A third converted freighter is due in September. Three more will arrive in 2007 and conversion options remain on six more.
- We also ordered six new Boeing 747-400ERFs for delivery in 2008 and 2009.

## REVIEW OF SUBSIDIARIES AND ASSOCIATES

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

- AHK operates overnight express cargo services to seven destinations in Asia, namely Bangkok, Osaka, Penang, Seoul, Singapore, Taipei and Tokyo.
- In May and June, AHK took delivery of two new Airbus A300-600F general freighters, increasing its fleet size to eight.
- As a result of the network expansion, capacity increased by 2.8%. Load factor increased by 5.6% points while yield increased slightly by 0.4%. The company recorded a satisfactory profit in the first half of 2006.

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

- CPCS recorded a satisfactory interim profit with strong meal volumes. The average meal production increased by 6.0% over last year and January's monthly average meals per day of 60,500 was the highest on record.
- The profit margin declined as a result of customer airlines' continued cost control initiatives.
- Profits from the overseas kitchens were satisfactory. The operations of the Toronto and Vancouver kitchens improved while the Taipei operation was adversely affected by increased food cost.

### Hong Kong Airport Services Limited ("HAS")

- HAS recorded a satisfactory interim profit. Traffic volumes continued to grow in an increasingly competitive environment.
- Cost reduction initiatives and productivity improvements continue to be a primary focus.

**Hong Kong Aircraft Engineering Company Limited (“HAECO”)**

- HAECO recorded an interim profit of HK\$398 million, a 38% increase over 2005.
- The majority of the growth came from increased heavy maintenance in both HAECO’s hangars in Hong Kong and its subsidiary Taikoo (Xiamen) Aircraft Engineering Company Limited (“TAECO”) in Xiamen. TAECO’s results were assisted by the opening of its fourth double bay hangar. Line maintenance at Hong Kong International Airport and engine overhaul by Hong Kong Aero Engine Services Limited (“HAESL”) also produced satisfactory results.
- The HAECO group is currently running its facilities at near full capacity. HAECO’s second hangar at Hong Kong International Airport is scheduled to open later this year.
- TAECO’s fifth hangar at Xiamen is on track to open in mid-2007 and a sixth hangar will also be constructed with an opening planned by the end of 2008. HAESL’s engine-build workshop extension will open in the second half of 2007.

**Hong Kong Dragon Airlines Limited (“Dragonair”)**

- Dragonair recorded a loss in the first half of 2006 as high fuel prices continued to affect the airline’s profitability. The systemwide fuel price increased by 32.0% over last year and fuel costs now account for 29.0% of the airline’s total operating costs.

- Passenger revenue increased by 8.5%. The airline carried 2.6 million passengers, 10.2% more than last year. Passenger load factor increased by 0.5% point to 64.6% while passenger yield reduced by 1.5%.
- Cargo revenue increased by 7.5%. The airline carried 188,180 tonnes of cargo during the period, 4.6% increase from last year. Cargo capacity increased with freighter services to New York commencing in April 2005 and increased frequencies to Frankfurt from April 2006. Cargo load factor increased slightly by 0.4% point to 72.0%. Cargo yield decreased by 6.7% as the airline faced increased competition and operated more long haul freighter services.
- Dragonair started a new passenger service to Shenyang via Dalian in March 2006. The airline now serves 31 destinations in Asia, including 23 in Mainland China. It also operates freighter services to major cities in Asia, Europe, Middle East and the United States.
- Two operating lease Airbus A330s were delivered in January and April respectively. As at 30 June 2006, Dragonair had a passenger aircraft fleet of ten Airbus A320s, six Airbus A321s and 15 Airbus A330s. Among them, one Airbus A320 and three Airbus A330s were wet leased to Air China. The airline also had four Boeing 747 freighters.
- One operating lease Airbus A330 will be delivered in October and two Boeing 747-400BCFs will be delivered in October and December respectively.

# FINANCIAL REVIEW

## TURNOVER

	Group		Cathay Pacific	
	Six months ended 30th June		Six months ended 30th June	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Passenger services	15,941	14,660	15,941	14,660
Cargo services	6,314	5,981	5,656	5,394
Catering, recoveries and other services	4,831	3,243	4,196	2,637
<b>Turnover</b>	<b>27,086</b>	<b>23,884</b>	<b>25,793</b>	<b>22,691</b>

- Passenger turnover increased by 8.7%, against a 10.8% increase in capacity.
- Cathay Pacific's cargo turnover recorded a growth of 4.9% against a 5.8% increase in capacity.
- Catering, recoveries and other services increased by 49.0%.

## OPERATING EXPENSES

Net operating expenses after deduction of Group recoveries of HK\$4,153 million (2005: HK\$2,597 million) and Cathay Pacific recoveries of HK\$4,196 million (2005: HK\$2,637 million) are analysed as follows:-

	Group			Cathay Pacific		
	Six months ended 30th June			Six months ended 30th June		
	2006 HK\$M	2005 HK\$M	Change	2006 HK\$M	2005 HK\$M	Change
Staff	4,709	4,581	+2.8%	4,273	4,149	+3.0%
Inflight service and passenger expenses	907	866	+4.7%	907	866	+4.7%
Landing, parking and route expenses	3,188	2,850	+11.9%	3,096	2,780	+11.4%
Fuel	5,896	5,257	+12.2%	5,756	5,151	+11.7%
Aircraft maintenance	2,512	1,891	+32.8%	2,470	1,862	+32.7%
Aircraft depreciation and operating leases	2,424	2,389	+1.5%	2,385	2,319	+2.8%
Other depreciation and operating leases	401	398	+0.8%	300	301	-0.3%
Commissions	299	273	+9.5%	299	273	+9.5%
Others	480	647	-25.8%	394	586	-32.8%
<b>Net operating expenses</b>	<b>20,816</b>	<b>19,152</b>	<b>+8.7%</b>	<b>19,880</b>	<b>18,287</b>	<b>+8.7%</b>
Net finance charges	177	210	-15.7%	121	171	-29.2%
<b>Total net operating expenses</b>	<b>20,993</b>	<b>19,362</b>	<b>+8.4%</b>	<b>20,001</b>	<b>18,458</b>	<b>+8.4%</b>

**OPERATING EXPENSES** (continued)

- Staff cost increased as staff numbers rose.
- Inflight service and passenger expenses rose due to an 11.1% increase in passenger numbers.
- Landing, parking and route expenses increased as a result of additional flights.
- Fuel cost increased as a result of a 28.5% increase in the average into plane fuel price to US\$2.0 per American gallon and a 7.3% increase in consumption.
- Fuel hedging gains increased by HK\$513 million to HK\$720 million and include unrealised mark to market gains of HK\$590 million (2005: HK\$52 million).
- Aircraft maintenance increased as a result of the larger operating fleet and the pattern of spend, driven by engine shop visits and hangar checks, being biased to the first half of the year.
- Cost per ATK remained at HK\$2.19 while the cost per ATK without fuel decreased by 1.3%.

**FINANCIAL POSITION**

- Additions to fixed assets were HK\$1,751 million, comprising HK\$1,670 million for aircraft and related equipment and HK\$81 million for other equipment and buildings.
- Borrowings decreased by 5.2% to HK\$21,279 million. These are fully repayable by 2018 and are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars and Euros with 56% at fixed rates of interest net of derivatives.
- Liquid funds, 73% of which are denominated in US dollars, increased by 2.0% to HK\$13,722 million.
- Net borrowings decreased by 16.3% to HK\$7,577 million.
- Funds attributable to Cathay Pacific shareholders increased by 3.9% to HK\$36,343 million whilst the net debt/equity ratio decreased to 0.21 times.
- The Group's policy on financial risk management and the management of currency, interest rate and fuel price exposures is set out in the 2005 annual report.

# INDEPENDENT REVIEW REPORT

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

### INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 13 to 24.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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 interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent 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.

### REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the period ended 30th June 2006.

### **KPMG**

*Certified Public Accountants*

Hong Kong, 9th August 2006

# CONDENSED FINANCIAL STATEMENTS

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30th June 2006 – Unaudited

	Note	2006 HK\$M	2005 HK\$M	2006 US\$M	2005 US\$M
<b>Turnover</b>					
Passenger services		15,941	14,660	2,044	1,879
Cargo services		6,314	5,981	810	767
Catering, recoveries and other services		4,831	3,243	619	416
<b>Total turnover</b>	2	<b>27,086</b>	<b>23,884</b>	<b>3,473</b>	<b>3,062</b>
<b>Expenses</b>					
Staff		(4,709)	(4,581)	(604)	(587)
Inflight service and passenger expenses		(1,067)	(985)	(137)	(126)
Landing, parking and route expenses		(3,674)	(3,314)	(471)	(425)
Fuel		(8,681)	(6,655)	(1,113)	(853)
Aircraft maintenance		(2,512)	(1,891)	(322)	(243)
Aircraft depreciation and operating leases		(2,424)	(2,400)	(311)	(308)
Other depreciation and operating leases		(401)	(398)	(51)	(51)
Commissions		(299)	(273)	(38)	(35)
Others		(1,202)	(1,252)	(154)	(161)
<b>Operating expenses</b>		<b>(24,969)</b>	<b>(21,749)</b>	<b>(3,201)</b>	<b>(2,789)</b>
<b>Operating profit</b>	3	<b>2,117</b>	<b>2,135</b>	<b>272</b>	<b>273</b>
Finance charges		(797)	(786)	(102)	(101)
Finance income		620	576	79	74
Net finance charges	4	(177)	(210)	(23)	(27)
Share of profits of associates		130	132	17	17
<b>Profit before tax</b>		<b>2,070</b>	<b>2,057</b>	<b>266</b>	<b>263</b>
Taxation	5	(316)	(307)	(41)	(39)
<b>Profit for the period</b>		<b>1,754</b>	<b>1,750</b>	<b>225</b>	<b>224</b>
<b>Profit attributable to</b>					
Cathay Pacific shareholders		1,668	1,670	214	214
Minority interests		86	80	11	10
		<b>1,754</b>	<b>1,750</b>	<b>225</b>	<b>224</b>
<b>Dividends</b>					
Interim declared	6	677	676	87	87
<b>Earnings per share</b>					
Basic	7	49.3¢	49.5¢	6.3¢	6.3¢
Diluted	7	49.2¢	49.3¢	6.3¢	6.3¢
<b>Dividend per share</b>	6	<b>20.0¢</b>	<b>20.0¢</b>	<b>2.6¢</b>	<b>2.6¢</b>

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

The notes on pages 18 to 24 form part of these accounts.

## CONSOLIDATED BALANCE SHEET

at 30th June 2006 – Unaudited

	Note	30th June 2006 HK\$M	31st December 2005 HK\$M	30th June 2006 US\$M	31st December 2005 US\$M
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets and liabilities</b>					
Fixed assets	8	49,883	50,156	6,395	6,430
Intangible assets	9	265	260	34	33
Investments in associates		1,785	1,731	229	222
Other long-term receivables and investments		6,227	5,453	798	699
		58,160	57,600	7,456	7,384
Long-term liabilities		(26,731)	(27,745)	(3,427)	(3,557)
Related pledged security deposits		8,072	8,853	1,035	1,135
Net long-term liabilities	10	(18,659)	(18,892)	(2,392)	(2,422)
Retirement benefit obligations		(94)	(72)	(12)	(9)
Deferred taxation		(6,523)	(6,460)	(836)	(828)
		(25,276)	(25,424)	(3,240)	(3,259)
<b>Net non-current assets</b>		<b>32,884</b>	<b>32,176</b>	<b>4,216</b>	<b>4,125</b>
<b>Current assets and liabilities</b>					
Stock		642	657	82	84
Trade and other receivables	11	7,046	6,538	904	838
Liquid funds		13,722	13,459	1,759	1,726
		21,410	20,654	2,745	2,648
Current portion of long-term liabilities		(3,980)	(4,849)	(510)	(622)
Related pledged security deposits		1,360	1,286	174	165
Net current portion of long-term liabilities	10	(2,620)	(3,563)	(336)	(457)
Trade and other payables	12	(8,416)	(7,625)	(1,079)	(978)
Unearned transportation revenue		(4,082)	(3,864)	(523)	(495)
Taxation		(2,479)	(2,527)	(318)	(324)
		(17,597)	(17,579)	(2,256)	(2,254)
<b>Net current assets</b>		<b>3,813</b>	<b>3,075</b>	<b>489</b>	<b>394</b>
<b>Net assets</b>		<b>36,697</b>	<b>35,251</b>	<b>4,705</b>	<b>4,519</b>
<b>CAPITAL AND RESERVES</b>					
Share capital	13	677	676	87	87
Reserves		35,666	34,292	4,573	4,396
Funds attributable to Cathay Pacific shareholders		36,343	34,968	4,660	4,483
Minority interests		354	283	45	36
<b>Total equity</b>		<b>36,697</b>	<b>35,251</b>	<b>4,705</b>	<b>4,519</b>

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

The notes on pages 18 to 24 form part of these accounts.



**CONSOLIDATED CASH FLOW STATEMENT***for the six months ended 30th June 2006 – Unaudited*

	2006 HK\$M	2005 HK\$M	2006 US\$M	2005 US\$M
<b>Operating activities</b>				
Cash generated from operations	4,761	3,880	610	497
Dividends received from associates	78	135	10	17
Interest received	100	71	13	9
Net interest paid	(446)	(316)	(57)	(40)
Tax paid	(345)	(211)	(44)	(27)
<b>Net cash inflow from operating activities</b>	<b>4,148</b>	<b>3,559</b>	<b>532</b>	<b>456</b>
<b>Investing activities</b>				
Net decrease/(increase) in other long-term receivables and investments	39	(104)	5	(13)
Sales of fixed assets	5	9	1	1
Receipts from repayment of loan and capital reduction from associates	2	9	–	1
Payments for fixed and intangible assets	(1,644)	(2,819)	(211)	(361)
Net (increase)/decrease in liquid funds other than cash and cash equivalents	(503)	447	(65)	57
<b>Net cash outflow from investing activities</b>	<b>(2,101)</b>	<b>(2,458)</b>	<b>(270)</b>	<b>(315)</b>
<b>Financing activities</b>				
New financing	929	2,859	119	367
Shares issued	17	68	2	9
Loan and finance lease repayments	(2,489)	(1,733)	(319)	(222)
Dividends paid – to shareholders	(947)	(1,520)	(121)	(195)
– to minority interests	(15)	(12)	(2)	(2)
<b>Net cash outflow from financing activities</b>	<b>(2,505)</b>	<b>(338)</b>	<b>(321)</b>	<b>(43)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(458)</b>	<b>763</b>	<b>(59)</b>	<b>98</b>
Cash and cash equivalents at 1st January	4,267	2,657	547	341
Effect of exchange differences	37	(88)	5	(12)
<b>Cash and cash equivalents at 30th June</b>	<b>3,846</b>	<b>3,332</b>	<b>493</b>	<b>427</b>

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

The notes on pages 18 to 24 form part of these accounts.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2006 – Unaudited

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

The notes on pages 18 to 24 form part of these accounts.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2005 – Unaudited

	Attributable to Cathay Pacific shareholders							Minority interests HK\$M	Total equity HK\$M
	Non-distributable						Total HK\$M		
	Share capital HK\$M	Retained profit HK\$M	Share premium HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Capital redemption reserve and others HK\$M			
At 31st December 2004	674	25,496	7,455	493	(1,285)	22	32,855	134	32,989
Prior period adjustment for financial derivatives	–	(106)	–	–	–	–	(106)	–	(106)
At 1st January 2005	674	25,390	7,455	493	(1,285)	22	32,749	134	32,883
Changes in cash flow hedges									
– recognised during the period	–	–	–	–	1,152	–	1,152	–	1,152
– deferred tax recognised	–	–	–	–	(129)	–	(129)	–	(129)
– transferred to profit for the period	–	–	–	–	(34)	–	(34)	–	(34)
Revaluation deficit recognised during the period	–	–	–	(127)	–	–	(127)	–	(127)
Exchange differences	–	–	–	–	–	(2)	(2)	–	(2)
Net (loss)/gain recognised directly in equity	–	–	–	(127)	989	(2)	860	–	860
Profit for the period	–	1,670	–	–	–	–	1,670	80	1,750
Total recognised profit/(loss) for the period	–	1,670	–	(127)	989	(2)	2,530	80	2,610
2004 final dividend	–	(1,520)	–	–	–	–	(1,520)	–	(1,520)
Dividends paid to minority interests	–	–	–	–	–	–	–	(12)	(12)
Share options exercised	2	–	66	–	–	–	68	–	68
Total transactions with shareholders	2	(1,520)	66	–	–	–	(1,452)	(12)	(1,464)
At 30th June 2005	676	25,540	7,521	366	(296)	20	33,827	202	34,029

The notes on pages 18 to 24 form part of these accounts.

# NOTES TO THE ACCOUNTS

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim report has been prepared on a basis consistent with the principal accounting policies adopted in the 2005 annual report.

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

## 2. TURNOVER

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

### (a) Primary reporting by geographical segment

	Six months ended 30th June	
	2006 HK\$M	2005 HK\$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	10,606	9,037
– Japan, Korea and Taiwan	4,301	3,901
South West Pacific and South Africa	1,918	1,760
South East Asia and Middle East	3,228	2,887
Europe	3,094	3,136
North America	3,939	3,163
	<b>27,086</b>	<b>23,884</b>

Countries included in each region are defined in the 2005 annual report. Geographical analysis of segment results, segment assets and segment liabilities is not disclosed for the reasons set out in the 2005 annual report.

### (b) Secondary reporting by business segment

	Six months ended 30th June	
	2006 HK\$M	2005 HK\$M
Revenue – external sales		
– Passenger services	15,941	14,660
– Cargo services	6,314	5,981
	<b>22,255</b>	<b>20,641</b>
Unallocated revenue		
– Catering, recoveries and other services	4,831	3,243
	<b>27,086</b>	<b>23,884</b>

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

Analysis of net assets by business segment is not disclosed for the reasons set out in the 2005 annual report.

**3. OPERATING PROFIT**

	Six months ended 30th June	
	2006 HK\$M	2005 HK\$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	866	948
– Owned	1,133	1,023
Amortisation of intangible assets	19	25
Operating lease rentals		
– Land and buildings	200	192
– Aircraft and related equipment	589	591
– Others	18	19
Operating lease income		
– Aircraft and related equipment	–	(11)
Cost of stock expensed	760	644
Exchange differences	8	(47)
Auditors' remuneration	3	3
Income from listed investments	(25)	(5)
Income from unlisted investments	(51)	(40)

**4. NET FINANCE CHARGES**

	Six months ended 30th June	
	2006 HK\$M	2005 HK\$M
Net interest charges comprise:		
– Obligations under finance leases	685	713
– Interest income on related security deposits, notes and bonds	(313)	(385)
	372	328
– Bank loans and overdrafts	90	53
– Other loans wholly repayable within five years	22	15
– Other loans not wholly repayable within five years	–	3
	484	399
Income from liquid funds:		
– Funds with investment managers and other liquid investments	(198)	(90)
– Bank deposits and other receivables	(101)	(97)
	(299)	(187)
Financial derivatives:		
– Interest income	(8)	(4)
– Interest expenses	–	2
	(8)	(2)
	177	210

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

**5. TAXATION**

	Six months ended 30th June	
	2006 HK\$M	2005 HK\$M
Current tax expenses		
– Hong Kong profits tax	24	21
– Overseas tax	160	155
– Under provision for prior years	42	—
Deferred tax		
– Origination and reversal of temporary differences	90	131
	<b>316</b>	<b>307</b>

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

**6. DIVIDENDS**

On 9th August 2006, the Board of Directors declared an interim dividend of HK¢20 per share (2005: HK¢20 per share) for the period ended 30th June 2006. This interim dividend which totals HK\$677 million (2005: HK\$676 million) will be paid on 3rd October 2006 to shareholders registered at the close of business on 8th September 2006. The share register will be closed from 4th September 2006 to 8th September 2006, both dates inclusive.

The interim dividend will increase by HK\$110 million if the proposed new shares, as described in note 13 to the accounts, are issued prior to 4th September 2006.

**7. EARNINGS PER SHARE**

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to Cathay Pacific shareholders of HK\$1,668 million (2005: HK\$1,670 million) by the daily weighted average number of shares in issue throughout the period of 3,382 million (2005: 3,374 million) shares and 3,389 million (2005: 3,385 million) shares respectively with the latter adjusted for the effects of the share options.

	2006 million	2005 million
Weighted average number of ordinary shares used in calculating basic earnings per share	3,382	3,374
Deemed issue of ordinary shares for no consideration	7	11
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>3,389</b>	<b>3,385</b>

**8. FIXED ASSETS**

	Aircraft and related equipment HK\$M	Other equipment HK\$M	Buildings HK\$M	Total HK\$M
<b>Cost</b>				
At 1st January 2006	76,380	2,876	4,522	83,778
Exchange differences	–	3	4	7
Additions	1,670	80	1	1,751
Disposals	(177)	(27)	–	(204)
At 30th June 2006	77,873	2,932	4,527	85,332
<b>Accumulated depreciation</b>				
At 1st January 2006	30,311	1,888	1,423	33,622
Exchange differences	–	2	2	4
Charge for the period	1,835	84	80	1,999
Disposals	(149)	(27)	–	(176)
At 30th June 2006	31,997	1,947	1,505	35,449
<b>Net book value</b>				
At 30th June 2006	45,876	985	3,022	49,883
At 31st December 2005	46,069	988	3,099	50,156

Fixed assets at 30th June 2006 include leased assets of HK\$28,208 million (31st December 2005: HK\$28,890 million).

**9. INTANGIBLE ASSETS**

	Goodwill HK\$M	Computer systems HK\$M	Total HK\$M
<b>Cost</b>			
At 1st January 2006	176	582	758
Additions	–	24	24
At 30th June 2006	176	606	782
<b>Accumulated amortisation</b>			
At 1st January 2006	–	498	498
Charge for the period	–	19	19
At 30th June 2006	–	517	517
<b>Net book value</b>			
At 30th June 2006	176	89	265
At 31st December 2005	176	84	260

**10. LONG-TERM LIABILITIES**

	30th June 2006		31st December 2005	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Long-term loans	421	4,525	1,652	4,611
Obligations under finance leases	2,199	14,134	1,911	14,281
	2,620	18,659	3,563	18,892

**11. TRADE AND OTHER RECEIVABLES**

	30th June 2006 HK\$M	31st December 2005 HK\$M
Trade debtors	3,617	3,448
Derivative financial assets	1,464	886
Other receivables and prepayments	1,952	2,192
Due from associates	13	12
	<b>7,046</b>	<b>6,538</b>

	30th June 2006 HK\$M	31st December 2005 HK\$M
Analysis of trade debtors by age:		
Current	3,592	3,408
One to three months overdue	22	38
More than three months overdue	3	2
	<b>3,617</b>	<b>3,448</b>

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

**12. TRADE AND OTHER PAYABLES**

	30th June 2006 HK\$M	31st December 2005 HK\$M
Trade creditors	3,040	3,019
Derivative financial liabilities	541	313
Other payables	4,642	3,937
Due to associates	106	211
Due to other related companies	67	91
Bank overdrafts – unsecured	20	54
	<b>8,416</b>	<b>7,625</b>

	30th June 2006 HK\$M	31st December 2005 HK\$M
Analysis of trade creditors by age:		
Current	2,512	2,421
One to three months overdue	445	463
More than three months overdue	83	135
	<b>3,040</b>	<b>3,019</b>

**13. SHARE CAPITAL**

During the period under review, the Group did not purchase, sell or redeem any shares in the Company. At 30th June 2006, 3,382,854,348 shares were in issue (31st December 2005: 3,380,632,348 shares).

The Company adopted a share option scheme (the "Scheme") on 10th March 1999 for the purpose of providing flight deck crew with an incentive to contribute towards the Company's results. All participants of the Scheme were flight deck crew who paid HK\$1 each on acceptance of their share options and were granted options to subscribe for shares of the Company at a price not less than the higher of 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days



**13. SHARE CAPITAL** (continued)

immediately preceding the date of grant, and the nominal value of the shares. The Scheme had been closed and no share options were available for issue under the Scheme during the period under review. The entitlement of each participant has not exceeded 0.32% of the maximum aggregate number of shares in respect of which options have been granted under the Scheme.

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

Hong Kong Financial Reporting Standard 2 “Share-based Payment” does not apply to this Scheme as share options were granted before 7th November 2002.

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

	2006 Number of shares	2005 Number of shares
Movements in options outstanding comprise:		
At 1st January	16,077,500	26,494,500
Options exercised	(2,222,000)	(9,039,500)
At 30th June	13,855,500	17,455,000
Options vested at 30th June	13,855,500	17,455,000

No option was granted under the Scheme during the period.

	2006	2005
Details of share options exercised during the period:		
Exercise date	10/1/06-30/6/06	7/1/05-28/6/05
Proceeds received (HK\$)	16,598,340	67,525,065
Weighted average closing share price immediately before the exercise date (HK\$)	13.85	14.56

On 8th June 2006, the Company, Air China Limited, China National Aviation Company Limited, CITIC Pacific Limited and Swire Pacific Limited entered into a Restructuring Agreement in respect of which a joint announcement dated 8th June 2006 was published and a circular dated 6th July 2006 was sent to shareholders. An Extraordinary General Meeting will be held on 22nd August 2006 to approve the transactions contemplated under this agreement. Under this agreement, Hong Kong Dragon Airlines Limited will become a wholly owned subsidiary of the Company and Air China Limited will become a significant shareholder in the Company. The Company will also increase its existing shareholding in Air China Limited.

Upon completion (“Completion”) of the Restructuring Agreement, the Company’s authorised share capital will increase from 3,900,000,000 shares of HK\$0.20 each to 5,000,000,000 shares of HK\$0.20 each and the Company will issue 548,045,724 new shares of HK\$0.20 each at an issue price of HK\$13.50 per share.

Under the Restructuring Agreement, Swire Pacific Limited and CITIC Pacific Limited have agreed to recommend to the Board of the Company that as soon as practicable following Completion, and in any event no later than 60 days following Completion, the Company will pay a special interim dividend of HK\$0.32 per share, in aggregate being a payment of approximately HK\$1,258 million in cash by the Company

**13. SHARE CAPITAL** (continued)

assuming 3,930,830,072 shares are in issue at the relevant time. Any such special interim dividend will be financed by the Company's internal cash resources. A further announcement will be made in relation to the payment of the special dividend when details have been finalised.

**14. COMMITMENTS AND CONTINGENCIES**

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

	30th June 2006 HK\$M	31st December 2005 HK\$M
Authorised and contracted for	22,672	16,724
Authorised but not contracted for	3,072	1,034
	<b>25,744</b>	<b>17,758</b>

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

	30th June 2006 HK\$M	31st December 2005 HK\$M
Associate	18	18
Staff	200	200
	<b>218</b>	<b>218</b>

(c) The Company has under certain circumstances undertaken to maintain specified rates of return within the Group's leasing arrangements. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

(d) The Company files tax returns in many jurisdictions and in certain of these the returns have remained in dispute for a number of years. Provisions have been made to cover the expected outcome of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.

(e) The Company is the subject of investigations in respect of its air cargo operations by the European Commission and United States Department of Justice and has been cooperating with the authorities in their investigations. The focus of the investigations appears to be on issues relating to pricing and competition. The Company is represented by legal counsel in connection with the investigations.

The Company has been named as a defendant in a number of civil class action complaints in the United States and is aware of two recently filed civil complaints in Canada, all of which relate to Company imposed surcharges. The Company is represented by legal counsel and intends to defend these actions.

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

**15. FINANCIAL RISK MANAGEMENT**

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

# INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

## CORPORATE GOVERNANCE

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

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Listing Rules.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim report, they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions.

## DIRECTORS’ INTERESTS

At 30th June 2006, the register maintained under Section 352 of the Securities and Futures Ordinance (“SFO”) showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited:

	No. of shares	Percentage of issued capital
Philip Chen	9,000	0.00027
Derek Cridland	17,000	0.00050
Tony Tyler	5,000	0.00015

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 2006 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons, all being beneficial interests:

	No. of shares	Percentage of issued capital	Types of interest (Note)
1. Swire Pacific Limited	1,566,233,246	46.30	Beneficial owner
2. John Swire & Sons Limited	1,566,233,246	46.30	Attributable interest <sup>(a)</sup>
3. CITIC Pacific Limited	859,353,462	25.40	Beneficial owner and attributable interest <sup>(b)</sup>

Note: At 30th June 2006 :

- (a) John Swire & Sons Limited and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 1,566,233,246 shares of the Company directly held by Swire Pacific Limited by virtue of the John Swire & Sons Limited group's direct or indirect interests in shares of Swire Pacific Limited representing approximately 31.34% of the issued share capital and approximately 53.59% of the voting rights.
- (b) CITIC Pacific Limited was beneficial owner of 71,600,000 shares of the Company. In addition, each of CITIC Pacific Limited and its wholly owned subsidiary Super Supreme Company Limited had an attributable interest in 787,753,462 shares of the Company which were held by their wholly owned subsidiaries as follows: 214,851,154 shares held by Custain Limited, 191,922,273 shares held by Easerich Investments Inc., 189,057,762 shares held by Motive Link Holdings Inc., and 191,922,273 shares held by Smooth Tone Investments Ltd.
- (c) Following the entering into of the Restructuring Agreement dated 8th June 2006 between Air China Limited, the Company, China National Aviation Company Limited, CITIC Pacific Limited and Swire Pacific Limited:
  - (i) China National Aviation Holding Company, the holding company of Air China Limited and China National Aviation Company Limited, was deemed interested in a total of 687,895,263 shares of the Company, comprising 288,596,335 shares to be issued by the Company to China National Aviation Company Limited, 40,128,292 shares to be acquired by Air China Limited from Swire Pacific Limited and 359,170,636 shares to be acquired by Air China Limited from CITIC Pacific Limited upon completion;
  - (ii) CITIC Pacific Limited was deemed interested in a total of 1,049,330,107 shares of the Company, including 189,976,645 shares to be issued by the Company to CITIC Pacific Limited upon completion; and
  - (iii) John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed interested in a total of 1,617,635,657 shares of the Company, including 51,402,411 shares to be issued by the Company to Swire Pacific Limited upon completion.