

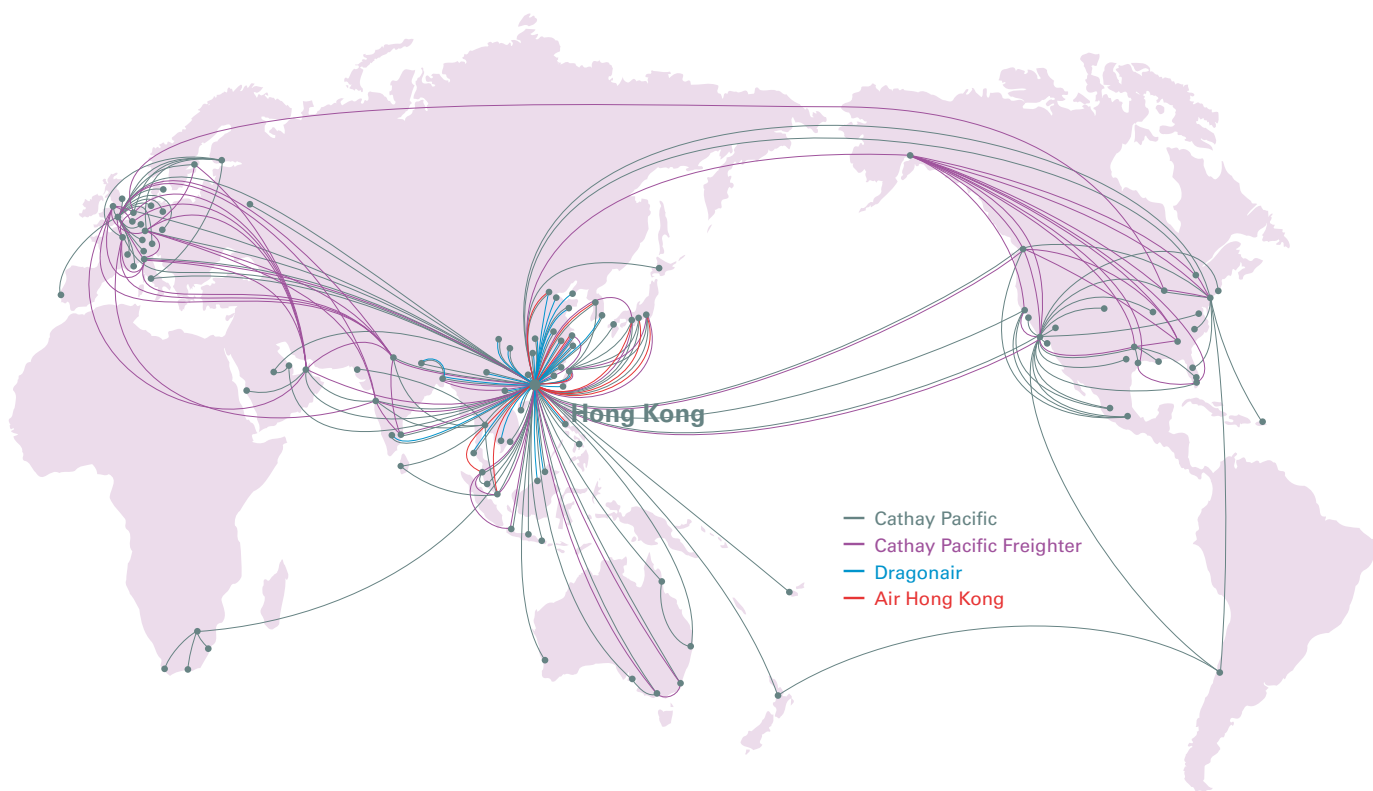


Cathay Pacific Airways Limited

2010 Interim Report

Stock Code: 00293





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CORPORATE INFORMATION

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

INVESTOR RELATIONS

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

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 120 destinations in 38 countries and territories.

The Company was founded in Hong Kong in 1946 and remains deeply committed to its home base, making substantial investments to develop Hong Kong as one of the world's leading global transportation hubs. In addition to its fleet of 128 wide-bodied aircraft, these investments include catering, aircraft maintenance, ground handling companies and the corporate headquarters, Cathay Pacific City, at Hong Kong International Airport.

Hong Kong Dragon Airlines Limited ("Dragonair"), an Asian regional airline registered and based in Hong Kong offering scheduled passenger and cargo services to 30 destinations in 10 countries and territories with a fleet of 31 aircraft, is a wholly owned subsidiary of Cathay Pacific. Cathay Pacific owns 19.2% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline related services in Mainland China, and is the major shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in the Asian region.

Cathay Pacific and its subsidiaries employ some 20,000 people in Hong Kong. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **oneworld** global alliance, whose combined network serves almost 700 destinations worldwide. Dragonair is an affiliate member of **oneworld**.

Financial and Operating Highlights

GROUP FINANCIAL STATISTICS

		2010	2009	Change
		Six months ended 30th June		
Results				
Turnover	HK\$ million	41,337	30,921	+33.7%
Profit attributable to owners of Cathay Pacific	HK\$ million	6,840	812	+742.4%
Earnings per share	HK cents	173.9	20.6	+744.2%
Dividend per share	HK cents	33	–	N/A
Profit margin	%	16.5	2.6	+13.9%pt
Financial position				
Funds attributable to owners of Cathay Pacific	HK\$ million	48,720	42,238	+15.3%
Net borrowings	HK\$ million	19,698	26,131	-24.6%
Shareholders' funds per share	HK\$	12.4	10.7	+15.9%
Net debt/equity ratio	Times	0.40	0.62	-0.22 times

OPERATING STATISTICS – CATHAY PACIFIC AND DRAGONAIR

		2010	2009	Change
		Six months ended 30th June		
Available tonne kilometres ("ATK")	Million	11,436	11,035	+3.6%
Passengers carried	'000	12,954	11,938	+8.5%
Passenger load factor	%	84.0	78.5	+5.5%pt
Passenger yield	HK cents	58.4	49.7	+17.5%
Cargo and mail carried	'000 tonnes	872	701	+24.4%
Cargo and mail load factor	%	78.0	66.2	+11.8%pt
Cargo and mail yield	HK\$	2.26	1.66	+36.1%
Cost per ATK	HK\$	3.14	2.57	+22.2%
Cost per ATK without fuel	HK\$	2.01	1.98	+1.5%
Aircraft utilisation	Hours per day	11.8	11.1	+6.3%
On-time performance	%	82.5	88.3	-5.8%pt

Chairman's Letter

The Cathay Pacific Group reported a profit of HK\$6,840 million for the first six months of 2010. This compares to a profit of HK\$812 million in the first half of 2009. Earnings per share were up 7.4 times to HK173.9 cents. Turnover for the period increased by 33.7% to HK\$41,337 million.

In the first half of the year the Cathay Pacific Group experienced a continuing and significant recovery in its core business following the extremely challenging conditions experienced for much of the previous year. The turnaround in business that began in the last quarter of 2009 continued into 2010 and gained momentum. Both the passenger and cargo businesses of Cathay Pacific and Dragonair performed well with revenues continuing to increase despite uncertainty over the stability of the global economy.

Our passenger business experienced a marked improvement from the lows of 2009 with revenues returning almost to pre-financial crisis levels. In economy class, load factors were generally high, as they were during much of the previous year, and yields increased. In the premium classes there was a sharp increase in demand for business travel originating in Hong Kong although this was not matched by a comparable increase in demand for travel originating in other major cities. The two airlines carried a total of 13.0 million passengers in the first six months of 2010 – an increase of 8.5% from the first six months of 2009. The load factor increased by 5.5 percentage points. Capacity decreased by 0.1%. Passenger revenue for the half-year period was HK\$27,411 million – an increase of 25.7% from the first half of 2009. Yield increased by 17.5% to HK58.4 cents.

Our cargo business was very robust for the whole of the first half with strong demand in all key markets. The cargo load factor increased by 11.8 percentage points compared with the first half of 2009, hitting a record of 78.0%. By July we had brought back into service all five aircraft parked in

the desert during last year's downturn which helped us to meet demand. In the half year the amount of freight carried by both airlines increased by 24.4% to 872,000 tonnes. Cargo revenue increased by 63.1% to HK\$11,844 million. Yield increased by 36.1% to HK\$2.26.

We were once again affected in the first half of 2010 by an increase in the price of fuel, our most significant cost component. Our fuel costs increased by 51.1% compared to the same period in 2009. Managing the risk associated with fuel price changes is a key challenge and objective.

After the extremely challenging conditions of much of 2009 the subsequent turnaround in business has been very welcome. Aviation had been deeply affected by the global economic downturn and we had to take a number of significant measures – including parking aircraft, reducing services and asking our staff to take unpaid leave – in response. However, in 2010 we have been able to get our business back on track, restoring capacity and reinstating services. The improved financial situation enabled us to make an ex-gratia payment to all the staff who voluntarily took unpaid leave in support of the Company during the most difficult time of the financial crisis in 2009. The ex-gratia payment was made in recognition of the loyalty and support of our staff.

It is our policy to maintain a conservative balance sheet. This policy proved its worth in the downturn. The turnaround in our business has afforded us the opportunity to rebuild our balance sheet and to strengthen our financial position to the extent that we are now in a stronger position to proceed with our core objectives of growth and of further strengthening the position of our home city, Hong Kong, as one of the world's leading international aviation hubs. In the first half of 2010 we continued to strengthen our fleet by adding modern, fuel-efficient aircraft, taking delivery of

four more Boeing 777-300ER passenger aircraft. We will take delivery of another 12 aircraft of this type between now and 2013. We will significantly increase the operational efficiency of our freighter fleet when we begin taking delivery of a total of 10 Boeing 747-8Fs in January next year. Our passenger and freighter schedules have been restored almost to their pre-downturn levels. We have added two new passenger destinations – Milan in March and Moscow in July. We are confident in the long-term success of both these routes.

Our strategic partnership with Air China continues to go from strength to strength. In February we announced an important development in our relationship – the formation of a new cargo joint venture based in Shanghai. The two airlines will use an existing Air China subsidiary, Air China Cargo (in which we will take an equity and economic interest), as the platform for the joint venture, which is expected to begin operations in October. As part of the joint venture arrangements, we will sell four Boeing 747-400BCF freighters and two spare engines to Air China Cargo, with one of the aircraft being transferred later this year. The joint venture will enable us to exploit air cargo opportunities in the important Yangtze River Delta region. However, I would like to emphasise that our commitment to the Hong Kong hub remains unwavering. Indeed, we reaffirmed this commitment by recommencing work in March on our own cargo terminal at Hong Kong International Airport – a state-of-the-art HK\$5.5 billion facility designed to enhance the competitiveness and efficiency of Hong Kong as an airfreight hub.

One requirement of the agreement with the Hong Kong Airport Authority in relation to the new cargo terminal was the disposal of the Company's 10% shareholding in Hong Kong Air Cargo Terminals Limited ("Hactl"). This was completed in May realising cash of HK\$640 million and a profit of HK\$328 million. In June the Company also sold its

remaining 15% interest in Hong Kong Aircraft Engineering Company Limited ("HAECO"), realising cash of HK\$2,620 million and a profit of HK\$1,837 million. This disposal, at a 25% premium to the latest market price of HAECO shares immediately before the public announcement of the transaction, was consistent with our strategy of focusing on our core operations and has freed up cash for forthcoming investments.

If present trends continue, we expect our financial results to continue to be strong in the second half of 2010. That said, conditions can change rapidly in the airline industry. Our results would be adversely affected, and very quickly so, by a significant further increase in fuel prices or any return to the recessionary economic conditions of 2008 and much of 2009. We remain confident in the long-term future of the Cathay Pacific Group and Hong Kong. We are in a challenging and unpredictable industry and we have to be mindful of the many things – economic fluctuations, rising fuel prices, even volcanic eruptions – that can quickly have an impact on our business. Nevertheless, we have a number of things working in our favour, including our capable, supportive and committed team, a superb international network, effective management of costs, our quality service and product offering, a strong relationship with Air China, and our position in Hong Kong – one of the world's great cities and a premier international aviation hub. These core strengths will, I believe, ensure the continued success of the Company.

Christopher Pratt

Chairman

Hong Kong, 4th August 2010

2010 Interim Review

After the extremely challenging conditions of much of 2009, both Cathay Pacific and Dragonair saw a marked improvement in their passenger and cargo businesses in the first half of 2010. The airlines made a determined effort not to diminish the passenger experience during the downturn, and are now working hard to take their product and service offerings to new levels. At the same time, the Cathay Pacific Group remains focused on continuing to develop its home city, Hong Kong, as one of the world's leading international aviation hubs.

AWARD WINNING PRODUCTS AND SERVICES

- Cathay Pacific opened a new first and business class lounge in Terminal 3 at London's Heathrow International Airport in July to offer passengers using its busiest long-haul route a new level of pre-flight comfort and service.
- Our "The Arrival" lounge at Hong Kong International Airport ("HKIA") won the Best New Lounge award from the US edition of Travel + Leisure magazine.
- Dragonair was named World's Best Regional Airline in the annual Skytrax World Airline Awards. In the same awards, Cathay Pacific was named Best Transpacific Airline.
- Cathay Pacific won in the airline category of the Yahoo! Emotive Brand Awards 2009-2010 for the eighth consecutive year and was named a Top 3 Emotive Brand Award winner. Dragonair won in the Airline Category for the fifth year in a row. Cathay Pacific received the Excellent Services Brand from Sing Tao News, an Outstanding Brands Award from Economic Digest and the Top Service Award from Next Magazine.
- Cathay Pacific won individual and team honours at the Hong Kong Association for Customer Service Excellence awards in January. It later received a Corporate Award in the Hong Kong International Airport Customer Service Excellence Programme for the second year in a row, along with team and individual awards.
- We reinforced our position as Hong Kong's home carrier by serving a range of traditional local favourite dishes in first and business class. Cathay Pacific brought back its popular Best Chinese Food in the Air promotion featuring the food of famed Hong Kong restaurant Yung Kee.
- Dragonair celebrates its 25th year of serving the people of Hong Kong in 2010. In June the airline revealed a special anniversary livery on one of its aircraft and as part of its celebrations is serving special inflight menus featuring dishes from renowned restaurants in Hong Kong, Beijing and Shanghai. The anniversary celebrations will include a special fare promotion in the Hong Kong and Mainland China markets.

HUB DEVELOPMENT

- Cathay Pacific launched two new passenger destinations, reinforcing its commitment to developing Hong Kong as one of the world's leading passenger hubs. A four-times-weekly flight to Milan commenced in March and a three-times-weekly service to Moscow commenced in July.
- We continued to restore flights which were dropped during the downturn and enhanced services where possible. We added three flights per week to Toronto in March and added three flights per week to Los Angeles with effect from May. Jeddah, which was launched as a destination in October 2009, moved from four

flights a week to a daily service in March. Seoul was restored to a five-times-daily service and two daily flights to Taipei were restored by July. Singapore becomes a seven-flights-daily service from August.

- We increased flights to Paris, Denpasar and Sapporo over the summer period in response to increased demand.
- A twice-daily service to Haneda Airport will be started in October.
- Dragonair increased services to Changsha, Chengdu, Chongqing, Nanjing, Wuhan and Xiamen. The airline also added flights to Kaohsiung in July and restored daily services to Bengaluru in March and to Busan in July. From August, Phuket will move from nine to ten flights per week and Kota Kinabalu will move from four to five flights a week. Aircraft upgrades added capacity on the Fuzhou, Phnom Penh and (for the period of the World Expo) Shanghai routes. The daily service to Fukuoka will be resumed in October.
- Dragonair became a user of the new northern satellite concourse at HKIA, which opened at the end of 2009. The airline now has to use open-air remote bays less frequently.
- We continued our work to build Hong Kong's role as an air cargo hub by strengthening our freighter network. We restored capacity that was cut during the downturn and added extra scheduled services on the Miami, Dhaka/Hanoi, Osaka and Tokyo routes.

- We launched our first round-the-world freighter service in July, flying twice weekly to Chicago, thence to Amsterdam and Dubai and thence back to Hong Kong. This is the first time we have operated transatlantic flights. The service will help to open up new markets.
- We confirmed our long-term commitment to the Hong Kong hub by recommencing work on our HK\$5.5 billion cargo terminal at HKIA. The state-of-the-art facility, which will begin operations in 2013, will provide more choice and competition in Hong Kong's airfreight industry.

FLEET DEVELOPMENT

- Cathay Pacific took delivery of four new Boeing 777-300ER aircraft, in January, February, April and June, so further strengthening its long-haul fleet. The airline now operates 18 aircraft of this type with another 12 to be delivered between now and 2013.
- Cathay Pacific will receive one more new aircraft this year, an Airbus A330-300, which will be delivered in October. Next year it will take delivery of 15 new aircraft including the first six of a total of 10 new-generation Boeing 747-8F freighters which are on firm order.
- The five Boeing 747-400BCF freighters which were parked in the desert during the economic downturn were brought back into service by July, helping us to meet increased demand in the air cargo market.
- Six Cathay Pacific passenger aircraft remain parked in the desert: four Airbus A340-300s and two Boeing 747-400s.

- Dragonair took delivery of a new Airbus A320-200 in June and a further aircraft of the same type in July. It now has 11 aircraft of this type in its fleet. The additional aircraft will be used to strengthen further Dragonair's regional services.
- A Cathay Pacific Airbus A330-300 was transferred to the Dragonair fleet in June. Dragonair now has 14 aircraft of this type in its fleet.

PARTNERSHIPS

- In February, Cathay Pacific and Air China announced the formation of a cargo joint venture – the latest development in the strategic partnership between the two airlines. The joint venture, which will come into operation in October, will use Air China's existing subsidiary, Air China Cargo, as its platform. The Cathay Pacific Group holds a 25% equity interest and a 24% economic interest in the new joint venture and, as part of the joint venture arrangements, will sell a total of four Boeing 747-400BCF freighters and two spare engines to Air China Cargo.
- Cathay Pacific launched new codeshare arrangements with **oneworld** partners LAN and Mexicana Airlines, bringing three destinations in Latin America – Santiago, Mexico City and Guadalajara – into its network.
- Kingfisher Airlines, India's only five-star airline, signed a memorandum of understanding to join **oneworld** and is expected to begin flying as part of the alliance in 2011. Russian carrier S7 will join the alliance later in 2010.

- Japan Airlines reaffirmed its commitment to being part of the **oneworld** alliance in February following an extensive review of its alliance strategy.
- The **oneworld** alliance and its member airlines offered support to LAN after the carrier's operations were affected by the major earthquake that hit Chile in late February.

ENVIRONMENT

- Cathay Pacific published its first Sustainable Development Report in April, which built on the airline's previous Corporate Social Responsibility Reports so as to highlight how sustainable development processes and principles will be placed at the heart of the Group's business model.
- The in-depth and transparent nature of the Sustainable Development Report led to its being given an A+ rating in the Global Reporting Initiative Guidelines – the top rating in this internationally accepted benchmark for corporate social responsibility reporting.
- We continued to offer our "FLY greener" carbon offset programme, which allows passengers to offset the environmental impact of their travel. We currently purchase offsets in a range of environmental projects in Mainland China. Cathay Pacific produced a new leaflet in August aimed at encouraging more businesses to participate in FLY greener offset scheme.
- Cathay Pacific continues to work at the international level through organizations such as the United Nations Framework Convention on Climate Change and the International Civil Aviation Organization to ensure that the voice of airlines is heard in regard to climate change.

- Our environmental efforts were recognised in May when we collected a Silver Award (Sectoral Awards – Transport and Logistics) in the 2009 Hong Kong Awards for Environmental Excellence. Cathay Pacific won a Bronze Award in the same category in the corresponding 2008 awards.

CONTRIBUTION TO THE COMMUNITY

- Cathay Pacific won the Total Caring Award 2009/10 in March – the top award under the Caring Company Scheme organised by the Hong Kong Council of Social Service. The award recognises the airline’s ongoing commitment to caring for the well-being of the community, its employees and the environment.
- One-hundred students joined the fourth Cathay Pacific “I Can Fly” Programme in February, taking part in a six-month series of activities designed to increase their knowledge of aviation and to foster commitment to the community through self-designed social service projects.
- The “CX Volunteers” staff volunteering team continued to help the local community through activities such as the English on Air programme and a sale of donated household goods to help the underprivileged. So far, the English on Air programme has helped more than 1,000 Tung Chung school students to improve their spoken language skills.
- Cathay Pacific continued to support UNICEF through its Change for Good inflight fundraising programme. In about 20 years of running Change for Good, the airline has contributed more than HK\$91 million to help improve the lives of disadvantaged children around the world.
- Staff from Cathay Pacific joined trips – organised by UNICEF to Kenya and Ethiopia to see at first hand how funds from Change for Good are put to good use in improving people’s lives.
- Cathay Pacific and Dragonair, helped by the Swire Group Charitable Trust, together donated a total of HK\$5 million to help UNICEF’s relief efforts following the earthquake in the Qinghai province of western China. Money contributed by staff and passengers was matched by the companies.
- Cathay Pacific continues to lend its support to large-scale events designed to improve Hong Kong’s attractiveness as a place to live and to visit. In February the airline sponsored the annual Chinese New Year International Night Parade and in March co-sponsored for the ever-popular Hong Kong Sevens rugby event.
- Staff from the airlines continue to support mentally and physically handicapped children in Hong Kong through the work of the Sunnyside Club.
- Cathay Pacific and Dragonair confirmed their commitment to their home city by putting the updated Brand Hong Kong logo on their aircraft.
- Dragonair’s signature corporate social responsibility event, the Aviation Certificate Programme, celebrates its fifth anniversary in 2010. The latest programme launched in April with 16 participants, all members of the Hong Kong Air Cadet Corps, learning more about the operation of a successful commercial carrier.

- Dragonair has been working closely with The Nature Conservancy (TNC) since 2004 on the inflight charity fundraising campaign Change for Conservation, to raise awareness of the importance of nature conservation in northwestern Yunnan. A total of HK\$7.6 million has been raised so far.

COMMITMENT TO STAFF

- In March, the Cathay Pacific Group announced it would make an ex-gratia payment to all staff who took part in the Special Leave Scheme and other initiatives that were introduced in 2009 to help the Company reduce costs during the global economic downturn.
- The Cathay Pacific Cadet Pilot Programme continues to produce the next generation of local pilots, with another 30 cadets graduating from the programme in the first half of 2010. To date, a total of 309 cadets have graduated and currently work as pilots at Cathay Pacific, while 55 former cadets are now Captains with the airline.
- We regularly review our human resource and remuneration policies in the light of local legislation, industry practice, market conditions and the performance of individuals and the Group. In May we announced a new three-year profit share scheme that will enable staff of both Cathay Pacific and Dragonair to share in our success.
- In response to the restoration of passenger services and the launch of new destinations, Cathay Pacific will recruit several hundred cabin crew in Hong Kong in 2010. More than 10,000 applications have been received so far. The airline is also recruiting more cabin crew for its overseas bases in Bangkok, London, San Francisco and Singapore.
- Dragonair is also recruiting cabin crew in 2010. The airline held an open recruitment day in June attracting over 1,300 applicants to fill the more than 50 positions available.
- The latest Cathay Pacific marketing campaign, launched in March, focused on the staff who help to create the airline's special brand of service. Advertisements which highlight the professional and personal qualities of customer-facing staff have been backed up by a unique "Meet the Team" website.
- The airline ran an internal campaign for staff to create their own advertisements and confirm their own commitment to helping to take service to new heights.
- The sixth annual Betsy Awards were held in June to honour Cathay Pacific and Dragonair service staff who went beyond the call of duty to assist passengers in need or further promote the service excellence of the two airlines.

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

FLEET PROFILE*

Aircraft type	Number as at 30th June 2010				Firm orders				Expiry of operating leases					Purchase rights
	Owned	Leased		Total	'10	'11	'12 and beyond	Total	'11	'12	'13	'14	'15 and beyond	
		Finance	Operating											
Aircraft operated by Cathay Pacific:														
A330-300	10	15	6	31	1	3	4	8	3				3	
A340-300	6	5	4	15					4					
747-400	17		5	22						2			3	
747-400F	3	3		6										
747-400BCF	7	1	5	13							3	1	1	
747-400ERF		6		6										
747-8F						6	4	10						
777-200	4	1		5										
777-300	3	9		12										
777-300ER	2	7	9	18		6	6	12					9	20 ^(a)
Total	52	47	29	128	1	15	14	30	7	2	3	1	16	20
Aircraft operated by Dragonair:														
A320-200	5		5	10	1			1 ^(b)	2				3	
A321-200	2		4	6					2				2	
A330-300	4	1	9	14					2	3	3		1	
Total	11	1	18	30	1			1	6	3	3		6	
Aircraft operated by Air Hong Kong:														
A300-600F	2	6		8										
Grand total	65	54	47	166	2	15	14	31	13	5	6	1	22	20

* Includes parked aircraft.

(a) Purchase rights for aircraft delivered by 2017.

(b) Aircraft on 8 year operating lease.

REVIEW OF OTHER SUBSIDIARIES AND ASSOCIATES

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

- Air Hong Kong is the only all-cargo carrier in Hong Kong and is 60% owned by Cathay Pacific. It operates express cargo services for DHL Express as its core business.
- Air Hong Kong operates a fleet of eight owned Airbus A300-600F freighters and three wet-leased aircraft. One of the wet-leased aircraft is a Boeing 747-400BCF freighter leased from Cathay Pacific.
- Air Hong Kong serves 11 Asian cities from the Hong Kong hub – Bangkok, Beijing, Manila, Nagoya, Osaka, Penang, Seoul, Shanghai, Singapore, Taipei and Tokyo.
- Capacity increased by 10% with an enhanced fleet and network. Load factor improved by 7% points while yield decreased by 11%.
- During the first half of 2010, Air Hong Kong recorded a lower profit compared with the first half of 2009 due to a reduction in yield since the second half of 2009.

Cathay Pacific Catering Services (H.K.) Limited (“CPCS”)

- CPCS reported a higher profit in the first half of 2010 than in the first half of 2009 mainly as a result of increased number of meals, improved yield and effective cost management.
- Overseas kitchens in Ho Chi Minh City and Taipei experienced satisfactory growth in meal volumes and profits. However, results in Canada and Cebu were unsatisfactory as both operations were adversely affected by a downturn in the local economies.

Hong Kong Airport Services Limited (“HAS”)

- HAS, a wholly owned subsidiary, is the largest franchised ground-handling company at HKIA, offering both ramp and passenger handling services to 39 airlines.
- HAS achieved an increase in passenger handling volume and maintained ramp handling volume.
- With competitive pressure on handling rates and increasing headcount and rental costs, the results of HAS in the first half of 2010 were below expectations.

Air China Limited (“Air China”)

- Air China, in which Cathay Pacific owns 19.2%, is the national flag carrier and a leading provider of passenger, cargo and other airline related services in Mainland China.
- The airline serves 88 domestic and 50 international (regional) destinations, connecting 31 countries and regions in the world.
- The Group’s share of Air China’s results is based on accounts drawn up three months in arrears

and consequently the 2010 interim results include Air China’s results for the six months ended 31st March 2010.

- The Group recorded a satisfactory profit from Air China’s results as its results for the first quarter of 2010 improved significantly with strong demand and write-backs on its fuel hedging portfolio.

Hong Kong Aircraft Engineering Company Limited (“HAECO”)

- On 7th June 2010, Cathay Pacific announced that it had agreed to sell its remaining 15% shareholding in HAECO to Swire Pacific Limited. The transaction was driven by our strategic priorities and will benefit our core aviation business. It enables us to apply the proceeds from the transaction towards other investments in Cathay Pacific’s core aviation business, including investments in new aircraft, in our new cargo terminal, in continuing enhancements in products and services, as well as towards Cathay Pacific’s general working capital requirements. The longstanding operational relationship between Cathay Pacific and HAECO will remain unchanged as HAECO has always been our main provider of overhaul and maintenance services and we are HAECO’s biggest customer airline.
- Cathay Pacific’s share of HAECO’s profits for the first half of 2010 up to the date of sale was HK\$44 million, compared with a share of HAECO’s profits for the whole of the first half of 2009 of HK\$118 million. The reduction in profits was primarily attributable to the lower utilisation of heavy airframe maintenance facilities in Xiamen and a decline in the profitability of the engine overhaul business.

Review of Operations

PASSENGER SERVICES

Cathay Pacific and Dragonair carried a total of 13.0 million passengers in the first half of 2010, an increase of 8.5% compared with the same period in 2009. Both airlines experienced an increase in passenger business compared to the previous year, when revenues and yields were adversely affected by the global economic downturn. In the first six months of 2010 the airlines restored capacity which had been reduced in response to the downturn. There was a significant increase in demand from premium class travellers, particularly out of Hong Kong, which was a key contributor to the yield increase of 17.5% to HK\$58.4 cents. The passenger load factor for the period rose by 5.5 percentage points to 84.0% and revenue from passenger services increased by 25.7% to HK\$27,411 million.

Available seat kilometres (“ASK”), load factor and yield by region for Cathay Pacific and Dragonair passenger services for the first half of 2010 were as follows:

	ASK (million)			Load factor (%)			Yield
	2010	2009	Change	2010	2009	Change	Change
India, Middle East, Pakistan and Sri Lanka	5,475	5,106	+7.2%	78.3	74.1	+4.2%pt	+5.7%
Southeast Asia	6,811	6,948	-2.0%	82.4	76.6	+5.8%pt	+13.4%
Southwest Pacific and South Africa	9,173	9,155	+0.2%	80.6	79.1	+1.5%pt	+25.4%
Europe	9,838	10,450	-5.9%	85.8	83.1	+2.7%pt	+20.5%
North Asia	11,548	11,458	+0.8%	80.3	68.0	+12.3%pt	+10.2%
North America	12,835	12,633	+1.6%	91.7	86.6	+5.1%pt	+20.6%
Overall	55,680	55,750	-0.1%	84.0	78.5	+5.5%pt	+17.5%

- Demand in economy class remained robust and there was a significant improvement in yield compared to the first half of 2009.
- There was a rise in demand for first and business class travel and a corresponding rise in corporate sales, particularly in the key Hong Kong market. Yields improved significantly, though premium class traffic and revenue were both still below pre-downturn levels.
- Capacity which had been reduced during 2009 in response to the economic downturn was gradually restored by both Cathay Pacific and Dragonair. By the end of the first half of 2010, capacity had almost been restored to pre-downturn levels.
- The Cathay Pacific fleet was strengthened by the addition of four new Boeing 777-300ERs. Of the six passenger aircraft parked in the desert, the four Airbus A340-300s will be returned under terms of their operating leases in 2011, leaving two Boeing 747-400s.
- We launched two new routes. The Milan route was launched in March. Loads on the four-times-weekly service have been encouraging, particularly in business class. A three-times-weekly service to Moscow was launched in July.
- Business to and from Mainland China saw healthy growth, particularly to secondary cities. The 2010 Shanghai Expo helped to generate more traffic to Mainland China’s major commercial city and there was a general

increase in the number of people travelling from overseas to major commercial cities in Mainland China.

- Flights to four Dragonair destinations in Mainland China – Dalian, Guilin, Shenyang and Xian – remain suspended and the airline has yet to resume services to Taichung in Taiwan. However, the daily services to Fukuoka will be resumed in October.
- Business to and from the Pearl River Delta continued to grow, assisted by the Dragonair service to Guangzhou which was launched in September last year. Capacity on the route was increased over the Canton Fair period.
- Business on the Taiwan route, particularly traffic from Taiwan to the Mainland, continued to be affected by cross-Strait direct flights. An increase in the number of direct flights from 270 to 370 per week progressively from June will have a further impact. Despite this, we added two Cathay Pacific flights per day to Taipei – one in June and another in July – and also added four Dragonair flights per week to Kaohsiung in July.
- The Japan routes were strong for travel in both directions. We will launch a twice-daily service to Tokyo's Haneda Airport from October. We saw growth on our Korean routes with business showing a gradual pick-up in both directions.
- Southeast Asian destinations performed well in general, though business on the Bangkok route was affected by continued political unrest in the country. The Philippines and Indonesian routes performed well, though traffic on the Denpasar route has been affected by the introduction of more direct flights from Europe.
- Premium class travel to Australia and New Zealand is still not back to previous levels. However, business to secondary cities in Australia such as Brisbane and Perth was above expectations and we will look for opportunities to increase capacity on these routes.
- In India, the Delhi and Mumbai routes were affected by strong competition from Indian carriers, though business on the Chennai and Bengaluru routes has been steadily improving. Dragonair resumed a daily service to the latter city in March.
- In the Middle East, demand on the Saudi Arabia routes has been strong and we now operate a daily service on the Jeddah route, which was launched last October.
- Business traffic from Mainland China and Japan helped to improve our performance on the South African route. The World Cup was another positive factor and we increased capacity in June in response to increased demand during the period of the competition.
- Demand on the London route was strong with premium business traffic recovering more quickly than on other routes. Demand on other European routes was affected by an increase in competition and a relatively slow recovery in business travel. Performance on the new Milan flight has been satisfactory with good load factors continuing on the Rome route.
- In North America, the Toronto route experienced the strongest recovery in premium class travel. All other routes experienced continued high load factors in economy class.

CARGO SERVICES

Demand in the world's cargo markets experienced a strong recovery from the lows of the first half of 2009. The tonnage carried by Cathay Pacific and Dragonair grew by 24.4% to 872,000 tonnes between the first halves of 2009 and 2010 as the momentum that built up in the last quarter of 2009 continued in the first half of the current year. Capacity reductions made in response to the economic downturn were reinstated, with aircraft being brought back from the desert and the fleet working at high levels of utilisation. An overall shortage of airfreight capacity in the market contributed to the very high load factors and improvement in yields experienced in the first six months of 2010. Our load factor rose by 11.8 percentage points to a record 78% while yield was up by 36.1% to HK\$2.26. Cargo revenue grew by 63% to HK\$11,844 million.

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for the first half of 2010 were as follows:

	ATK (million)			Load factor (%)			Yield
	2010	2009	Change	2010	2009	Change	Change
Cathay Pacific and Dragonair	6,135	5,727	+7.1%	78.0	66.2	+11.8%pt	+36.1%

- Despite continued economic uncertainty, in particular relating to a number of Eurozone economies, demand for airfreight services remained strong throughout the first half of 2010. The Cathay Pacific Group saw high demand on the major trunk routes to North America and Europe as well as on its regional network in Asia.
- Strong demand allowed us to operate our freighter network at higher than expected load factors throughout the first six months. Outbound demand from the major markets of Hong Kong and Shanghai was consistently strong and inbound services also experienced load factors which were higher than expected.
- We restored capacity on key trunk routes and to regional destinations by increasing flights and, more recently, by bringing back into service the five freighters that were parked in the desert in 2009. However, ATKs flown in the first half of 2010 were still below those flown in the same period in 2008.
- Services were added as well as restored during the period. Frequencies to Miami increased from three to five flights per week, a third rotation was added on the Dhaka/Hanoi service, additional weekly flights were added to both Osaka and Tokyo, and extra services were put on to India and the Middle East.
- A number of charter flights and additional scheduled services were also mounted, when aircraft and aircrew resources allowed. This contributed to the freighter fleet being able to operate at very high levels of utilisation.
- Demand on the North American and European routes was consistently strong, assisted by new product launches in the consumer sector and companies starting to invest again in IT and other capital projects. Activity in the automotive industry component sector increased and companies' general wish to keep inventory levels to a minimum and maintain flexibility also helped to increase demand for airfreight services.

- A round-the-world freighter service was launched in July, flying eastwards to Chicago, thence to Amsterdam and Dubai, and thence back to Hong Kong. The twice-weekly flight offers significant commercial and operational benefits. This is the first time we have operated transatlantic flights.
- While Dragonair currently operates passenger aircraft only, it continues to sell space for cargo in the bellies of its aircraft on all routes. In the first half of 2010 the airline experienced a significant increase in cargo tonnage and revenue in line with overall market trends.
- A new cargo joint venture with Air China will come into operation in October, enabling us to exploit opportunities in the important Yangtze River Delta region. A total of four of Cathay Pacific's Boeing 747-400BCF freighters will be sold to the joint venture as part of joint venture arrangements, with one aircraft due to leave service with Cathay Pacific this year as a consequence.
- We remain deeply committed to our home base and to the continued development of Hong Kong as the world's leading international air cargo hub. To this end, we have recommenced work on our HK\$5.5 billion cargo terminal at HKIA, which will come into operation in 2013. At the same time we will continue to build the Cathay Pacific freighter fleet, taking delivery of 10 new Boeing 747-8Fs beginning in January 2011.

ASIA MILES

- Asia Miles, our travel rewards programme, continued to grow. At the end of June 2010 it had more than three million members.
- The number of partners increased to more than 400 in nine categories including airlines, hotels and major financial institutions.
- Over 90% of Cathay Pacific flights carried passengers redeeming frequent flyer miles.
- There was a 7% decrease in redemptions by Asia Miles members on flights operated by its 20 partner airlines in the first half of 2010.

ANTITRUST INVESTIGATIONS

Cathay Pacific remains the subject of antitrust investigations and proceedings by competition authorities in various jurisdictions and continues to cooperate with these authorities and, where applicable, defend itself vigorously. These investigations are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but holds a provision of HK\$26 million in respect of such liabilities in its accounts.

Financial Review

TURNOVER

	Group		Cathay Pacific and Dragonair	
	Six months ended 30th June		Six months ended 30th June	
	2010 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M
Passenger services	27,411	21,809	27,411	21,809
Cargo services	11,844	7,264	10,794	6,295
Catering, recoveries and other services	2,082	1,848	1,757	1,467
Turnover	41,337	30,921	39,962	29,571

- Group passenger turnover increased 25.7%, against a 0.1% reduction in capacity, as business improved with an increase in demand for premium class travel.
- Group cargo turnover rose by 63.1%. Combined Cathay Pacific and Dragonair cargo turnover increased by 71.5% with strong demand in the market.
- Turnover from catering, recoveries and other services increased by 12.7%.

OPERATING EXPENSES

	Group			Cathay Pacific and Dragonair		
	Six months ended 30th June			Six months ended 30th June		
	2010 HK\$M	2009 HK\$M	Change	2010 HK\$M	2009 HK\$M	Change
Staff	6,759	6,075	+11.3%	6,190	5,535	+11.8%
Inflight service and passenger expenses	1,551	1,433	+8.2%	1,551	1,433	+8.2%
Landing, parking and route expenses	5,280	4,999	+5.6%	5,195	4,910	+5.8%
Fuel	13,169	6,645	+98.2%	12,898	6,478	+99.1%
Aircraft maintenance	3,167	3,326	-4.8%	3,095	3,260	-5.1%
Aircraft depreciation and operating leases	4,091	4,187	-2.3%	4,006	4,093	-2.1%
Other depreciation and operating leases	547	540	+1.3%	432	423	+2.1%
Commissions	357	258	+38.4%	357	258	+38.4%
Others	1,454	1,415	+2.8%	1,620	1,545	+4.9%
Operating expenses	36,375	28,878	+26.0%	35,344	27,935	+26.5%
Net finance charges	562	437	+28.6%	536	398	+34.7%
Total operating expenses	36,937	29,315	+26.0%	35,880	28,333	+26.6%

- Group total operating expenses increased 26.0% to HK\$36,937 million.
- The combined cost per ATK of Cathay Pacific and Dragonair rose from HK\$2.57 to HK\$3.14 due to the 44.8% increase in the average fuel price.

CATHAY PACIFIC AND DRAGONAIR OPERATING RESULTS ANALYSIS

	Six months ended 30th June	
	2010 HK\$M	2009 HK\$M
Airlines operating profit/(loss) before fuel hedging, non-recurring items and tax	4,195	(200)
Profit on disposal of Hactl and HAECO shares	2,165	–
Provision for operating lease charge for parked aircraft	–	(396)
Net provision for impairment of aircraft and related equipment	(9)	(169)
Airlines profit/(loss) before fuel hedging (losses)/gains and tax	6,351	(765)
Realised and unrealised fuel hedging (losses)/gains	(104)	2,003
Tax charge	(403)	(185)
Airlines profit after tax	5,844	1,053
Share of profits/(losses) from subsidiaries and associates	996	(241)
Attributable profit	6,840	812

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

	HK\$M	
2009 interim airlines' operating loss before fuel hedging, non-recurring items and tax	(200)	
Passenger and cargo turnover	10,101	Passenger – Decreased HK\$27 million due to a 0.1% reduction in capacity. – A 5.5% points increase in load factor contributed to an increase of HK\$1,529 million. – HK\$4,080 million increase from a 17.5% increase in yield resulting from higher front end demand and favourable currency movements. – Income from excess baggage increased by HK\$20 million. Cargo – Increased HK\$448 million due to a 7.1% increase in capacity. – An 11.8% points increase in load factor contributed to an increase of HK\$1,205 million. – HK\$2,846 million increase from a 36.1% increase in yield.
Recoveries and other services	290	
Staff	(655)	– Increased due to higher bonus provisions and the effect of the "no pay leave" scheme implemented during the first half of 2009.
Inflight service and passenger expenses	(118)	– Increased due to an 8.5% increase in passenger numbers.
Landing, parking and route expenses	(285)	– Increased due to overall passenger and cargo growth.
Fuel	(4,313)	– Fuel costs increased due to a 44.8% increase in the average into-plane fuel price to US\$92.2 per barrel and a 3.9% increase in consumption to 750.0 million barrels.
Aircraft maintenance	165	– Decreased due to lower provisions for return conditions and stock.
Depreciation and operating leases	(318)	– Increased due to a revision of estimated residual values of certain aircraft.
Net finance charges	(138)	– Increased as a result of mark to market losses on interest rate derivatives partly offset by the effect of lower interest rates and a higher return on investment funds.
Others	(334)	
2010 interim airlines' operating profit before fuel hedging, non-recurring items and tax	4,195	

FUEL EXPENDITURE AND HEDGING

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

	Six months ended 30th June	
	2010 HK\$M	2009 HK\$M
Gross fuel cost	13,065	8,648
Realised hedging losses	72	71
Unrealised mark to market losses/(gains)	32	(2,074)
Net fuel cost	13,169	6,645

FINANCIAL POSITION

- Additions to fixed assets were HK\$4,235 million, comprising HK\$4,020 million for aircraft and related equipment and HK\$215 million for other equipment and buildings.
- Borrowings decreased by 4.0% to HK\$40,952 million. These are fully repayable by 2023 and are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars, Japanese yen and Euros with 57% at fixed rates of interest after the effect of related derivatives.
- Liquid funds, 75.9% of which are denominated in US dollars, increased by 28.7% to HK\$21,262 million.
- Net borrowings decreased by 24.6% to HK\$19,698 million.
- Funds attributable to the owners of Cathay Pacific increased by 15.3% to HK\$48,720 million while the net debt/equity ratio decreased to 0.40 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 2009 Annual Report.

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 20 to 34 which comprises the consolidated statement of financial position of Cathay Pacific Airways Limited as of 30th June 2010 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June 2010 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
4th August 2010

Condensed Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30th June 2010 – Unaudited

	Note	2010 HK\$M	2009 HK\$M	2010 US\$M	2009 US\$M
Turnover					
Passenger services		27,411	21,809	3,514	2,796
Cargo services		11,844	7,264	1,519	931
Catering, recoveries and other services		2,082	1,848	267	237
Total turnover	2	41,337	30,921	5,300	3,964
Expenses					
Staff		(6,759)	(6,075)	(867)	(779)
Inflight service and passenger expenses		(1,551)	(1,433)	(199)	(184)
Landing, parking and route expenses		(5,280)	(4,999)	(677)	(641)
Fuel		(13,169)	(6,645)	(1,688)	(852)
Aircraft maintenance		(3,167)	(3,326)	(406)	(426)
Aircraft depreciation and operating leases		(4,091)	(4,187)	(524)	(537)
Other depreciation and operating leases		(547)	(540)	(70)	(69)
Commissions		(357)	(258)	(46)	(33)
Others		(1,454)	(1,415)	(186)	(181)
Operating expenses		(36,375)	(28,878)	(4,663)	(3,702)
Operating profit before non-recurring items		4,962	2,043	637	262
Profit on disposal of investments	4	2,165	–	277	–
Operating profit	5	7,127	2,043	914	262
Finance charges		(887)	(891)	(114)	(114)
Finance income		325	454	42	58
Net finance charges	6	(562)	(437)	(72)	(56)
Share of profits/(losses) of associates		827	(426)	106	(55)
Profit before tax		7,392	1,180	948	151
Taxation	7	(462)	(259)	(59)	(33)
Profit for the period		6,930	921	889	118
Other comprehensive income					
Cash flow hedges		234	175	30	23
Revaluation of available-for-sale financial assets		(293)	11	(38)	1
Share of other comprehensive income of associates		17	40	2	5
Exchange differences on translation of foreign operations		77	–	10	–
Other comprehensive income for the period, net of tax	8	35	226	4	29
Total comprehensive income for the period		6,965	1,147	893	147
Profit attributable to					
Owners of Cathay Pacific		6,840	812	877	104
Minority interests		90	109	12	14
		6,930	921	889	118
Total comprehensive income attributable to					
Owners of Cathay Pacific		6,875	1,038	881	133
Minority interests		90	109	12	14
		6,965	1,147	893	147
Earnings per share (basic and diluted)	9	173.9¢	20.6¢	22.3¢	2.6¢

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 24 to 34 form part of these accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30th June 2010 – Unaudited

	Note	30th June 2010 HK\$M	31st December 2009 HK\$M	30th June 2010 US\$M	31st December 2009 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	11	66,243	65,495	8,493	8,397
Intangible assets	12	7,934	7,850	1,017	1,007
Investments in associates	13	10,168	9,042	1,304	1,159
Other long-term receivables and investments		4,930	5,307	632	680
		89,275	87,694	11,446	11,243
Long-term liabilities		(40,014)	(40,416)	(5,130)	(5,182)
Related pledged security deposits		5,336	5,602	684	719
Net long-term liabilities	14	(34,678)	(34,814)	(4,446)	(4,463)
Other long-term payables	15	(940)	(1,059)	(121)	(136)
Deferred taxation		(5,637)	(5,255)	(723)	(674)
		(41,255)	(41,128)	(5,290)	(5,273)
Net non-current assets		48,020	46,566	6,156	5,970
Current assets and liabilities					
Stock		910	947	117	122
Trade and other receivables	16	9,386	8,161	1,203	1,046
Liquid funds		21,262	16,522	2,726	2,118
		31,558	25,630	4,046	3,286
Current portion of long-term liabilities		(6,733)	(9,023)	(863)	(1,157)
Related pledged security deposits		459	1,195	59	153
Net current portion of long-term liabilities	14	(6,274)	(7,828)	(804)	(1,004)
Trade and other payables	17	(14,068)	(12,965)	(1,804)	(1,662)
Unearned transportation revenue		(9,435)	(8,075)	(1,209)	(1,035)
Taxation		(926)	(943)	(119)	(121)
		(30,703)	(29,811)	(3,936)	(3,822)
Net current assets/(liabilities)		855	(4,181)	110	(536)
Net assets		48,875	42,385	6,266	5,434
CAPITAL AND RESERVES					
Share capital	18	787	787	101	101
Reserves		47,933	41,451	6,145	5,314
Funds attributable to owners of Cathay Pacific		48,720	42,238	6,246	5,415
Minority interests		155	147	20	19
Total equity		48,875	42,385	6,266	5,434

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 24 to 34 form part of these accounts.

CONSOLIDATED STATEMENT OF CASH FLOWS*for the six months ended 30th June 2010 – Unaudited*

	2010 HK\$M	2009 HK\$M	2010 US\$M	2009 US\$M
Operating activities				
Cash generated from/(used in) operations	8,892	(98)	1,140	(13)
Dividends received from associates	57	129	7	16
Interest received	40	46	5	6
Net interest paid	(336)	(587)	(43)	(75)
Tax paid	(161)	(657)	(21)	(84)
Net cash inflow/(outflow) from operating activities	8,492	(1,167)	1,088	(150)
Investing activities				
Disposal of investments	3,260	–	418	–
Net (increase)/decrease in liquid funds other than cash and cash equivalents	(6,790)	2,733	(871)	350
Sales of fixed assets	327	331	42	43
Net decrease in other long-term receivables and investments	4	3	1	1
Payments for fixed and intangible assets	(4,335)	(4,913)	(556)	(630)
Payments to acquire additional shareholding in an associate	(1,040)	–	(133)	–
Net cash outflow from investing activities	(8,574)	(1,846)	(1,099)	(236)
Financing activities				
New financing	4,328	4,160	555	533
Shares repurchased and issued	–	8	–	1
Loan and finance lease repayments	(5,911)	(2,729)	(758)	(350)
Security deposits placed	(17)	–	(2)	–
Dividends paid – to shareholders	(393)	–	(50)	–
– to minority interests	(82)	(44)	(11)	(5)
Net cash (outflow)/inflow from financing activities	(2,075)	1,395	(266)	179
Decrease in cash and cash equivalents	(2,157)	(1,618)	(277)	(207)
Cash and cash equivalents at 1st January	10,094	7,045	1,294	903
Effect of exchange differences	6	31	1	4
Cash and cash equivalents at 30th June	7,943	5,458	1,018	700

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 24 to 34 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2010 – Unaudited

	Attributable to owners of Cathay Pacific							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 2009	787	24,704	16,295	1,117	(1,383)	718	42,238	147	42,385
Total comprehensive income for the period	–	6,840	–	(293)	234	94	6,875	90	6,965
2009 final dividends	–	(393)	–	–	–	–	(393)	–	(393)
Dividends paid to minority interests	–	–	–	–	–	–	–	(82)	(82)
	–	6,447	–	(293)	234	94	6,482	8	6,490
At 30th June 2010	787	31,151	16,295	824	(1,149)	812	48,720	155	48,875
At 31st December 2008	787	21,626	16,287	638	(1,712)	699	38,325	120	38,445
Adjustment on investment in Air China	–	(192)	–	–	–	–	(192)	–	(192)
Adjustment on adopting HK (IFRIC) Interpretation 13	–	(1,424)	–	–	–	–	(1,424)	–	(1,424)
As restated	787	20,010	16,287	638	(1,712)	699	36,709	120	36,829
Total comprehensive income for the period	–	812	–	11	175	40	1,038	109	1,147
Dividends paid to minority interests	–	–	–	–	–	–	–	(44)	(44)
Share options exercised	–	–	8	–	–	–	8	–	8
	–	812	8	11	175	40	1,046	65	1,111
At 30th June 2009	787	20,822	16,295	649	(1,537)	739	37,755	185	37,940

The notes on pages 24 to 34 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 2009 Annual Report.

The interim report has been prepared in accordance with HKAS 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 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	
	2010 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M
Sales to external customers	40,865	30,487	472	434			41,337	30,921
Inter-segment sales	–	–	642	605			642	605
Segment revenue	40,865	30,487	1,114	1,039			41,979	31,526
Segment results	7,059	1,999	68	44			7,127	2,043
Net finance charges	(546)	(426)	(16)	(11)			(562)	(437)
	6,513	1,573	52	33			6,565	1,606
Share of profits/(losses) of associates					827	(426)	827	(426)
Profit/(loss) before tax	6,513	1,573	52	33	827	(426)	7,392	1,180
Taxation	(452)	(252)	(10)	(7)			(462)	(259)
Profit for the period							6,930	921

3. Segment information (continued)

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

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

(b) Geographical information

	Six months ended 30th June	
	2010 HK\$M	2009 HK\$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	19,008	13,053
– Japan, Korea and Taiwan	5,121	3,785
India, Middle East, Pakistan and Sri Lanka	2,193	1,823
Southeast Asia	2,776	2,204
Southwest Pacific and South Africa	2,954	2,148
Europe	4,092	3,803
North America	5,193	4,105
	41,337	30,921

In view of the growing significance of the Southeast Asia and Middle East region during the period under review, the Management has decided to split it into two separate regions, the India, Middle East, Pakistan and Sri Lanka region and the Southeast Asia region. The 2009 comparatives have been reclassified accordingly.

India, Middle East, Pakistan and Sri Lanka includes Indian sub-continent, 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, Baltic and Turkey. North America includes U.S.A., Canada and Latin America. Geographic analysis of segment results is not disclosed for the reasons set out in the 2009 Annual Report.

4. Profit on disposal of investments

	Six months ended 30th June	
	2010 HK\$M	2009 HK\$M
Profit on disposal of an associate	1,837	–
Profit on disposal of a long-term investment	328	–
	2,165	–

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

5. Operating profit

	Six months ended 30th June	
	2010 HK\$M	2009 HK\$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	942	967
– Owned	2,179	1,821
Amortisation of intangible assets	16	14
Operating lease rentals		
– Land and buildings	334	325
– Aircraft and related equipment	1,155	1,590
– Others	12	10
Net provision for impairment of aircraft and related equipment	9	169
Cost of stock expensed	914	930
Exchange differences	(48)	(274)
Auditors' remuneration	4	4
Net losses/(gains) on financial assets and liabilities classified as held for trading	212	(2,102)
Net gains on financial assets and liabilities designated as at fair value through profit and loss	(49)	(208)
Income from unlisted investments	(19)	(44)

6. Net finance charges

	Six months ended 30th June	
	2010 HK\$M	2009 HK\$M
Net interest charges comprise:		
– Obligations under finance leases stated at amortised cost	377	519
– Interest income on related security deposits, notes and bonds	(171)	(208)
	206	311
– Bank loans and overdrafts	73	143
– Other loans wholly repayable within five years	29	44
	308	498
(Income)/loss from liquid funds:		
– Funds with investment managers and other liquid investments	(81)	5
– Bank deposits and other receivables	(24)	(38)
	(105)	(33)
Fair value change:		
– Obligations under finance leases designated as at fair value through profit and loss	(49)	(208)
– Financial derivatives	408	180
	359	(28)
	562	437

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

7. Taxation

	Six months ended 30th June	
	2010 HK\$M	2009 HK\$M
Current tax expenses		
– Hong Kong profits tax	43	12
– Overseas tax	114	152
– Over provision for prior years	(54)	(210)
Deferred tax		
– Origination and reversal of temporary differences	359	305
	462	259

Hong Kong profits tax is calculated at 16.5% (2009: 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 status of negotiations (see note 19(d) to the accounts).

8. Other comprehensive income

	Six months ended 30th June	
	2010 HK\$M	2009 HK\$M
Cash flow hedges		
– Recognised during the period	(243)	79
– Transferred to profit and loss	502	116
– Deferred tax recognised	(25)	(20)
Revaluation of available-for-sales financial assets		
– Recognised during the period	(30)	11
– Transferred to profit and loss	(263)	–
Share of other comprehensive income of associates	17	40
Exchange differences on translation of foreign operations	77	–
Other comprehensive income for the period	35	226

9. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to owners of Cathay Pacific of HK\$6,840 million (2009: HK\$812 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2009: 3,934 million) shares.

10. Dividends

The Directors declared an interim dividend of HK¢33 per share (2009: nil per share) for the period ended 30th June 2010. This interim dividend which totals HK\$1,298 million (2009: nil) will be paid on 4th October 2010 to shareholders registered at the close of business on the record date, 10th September 2010.

The register of members will be closed from 6th September 2010 to 10th September 2010, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 3rd September 2010.

11. Fixed assets

	Aircraft and related equipment HK\$M	Other equipment HK\$M	Buildings HK\$M	Building under construction HK\$M	Total HK\$M
Cost					
At 1st January 2010	105,394	3,352	5,133	837	114,716
Additions	4,020	78	32	105	4,235
Disposals	(538)	(28)	(3)	–	(569)
At 30th June 2010	108,876	3,402	5,162	942	118,382
Accumulated depreciation					
At 1st January 2010	44,646	2,297	2,278	–	49,221
Charge for the period	2,936	102	83	–	3,121
Impairment	9	–	–	–	9
Disposals	(182)	(27)	(3)	–	(212)
At 30th June 2010	47,409	2,372	2,358	–	52,139
Net book value					
At 30th June 2010	61,467	1,030	2,804	942	66,243
At 31st December 2009	60,748	1,055	2,855	837	65,495

Fixed assets at 30th June 2010 include leased assets of HK\$30,001 million (31st December 2009: HK\$29,489 million).

The Group revised the estimated residual values of certain aircraft and as a result, the depreciation charges of the Group for the current interim reporting period have increased by HK\$298 million. This will also increase the depreciation charges for future periods up to the year ended 31st December 2014 by HK\$461 million.

11. Fixed assets (continued)

Parked aircraft with no existing plan for reactivation are recognised at the lower of their carrying value and fair value less costs to sell. An impairment loss amounting to HK\$153 million was recognised for these aircraft and related equipment for the six months ended 30th June 2010. On the other hand, the Group reversed an impairment loss previously recognised of HK\$144 million during the six months ended 30th June 2010 for aircraft which will now be brought back to service.

12. Intangible assets

	Goodwill HK\$M	Computer systems HK\$M	Total HK\$M
Cost			
At 1st January 2010	7,666	792	8,458
Additions	–	100	100
At 30th June 2010	7,666	892	8,558
Accumulated amortisation			
At 1st January 2010	–	608	608
Charge for the period	–	16	16
At 30th June 2010	–	624	624
Net book value			
At 30th June 2010	7,666	268	7,934
At 31st December 2009	7,666	184	7,850

13. Investment in associates

	30th June 2010 HK\$M	31st December 2009 HK\$M
Share of net assets		
– Listed in Hong Kong	6,279	5,880
– Unlisted	375	367
Goodwill	3,514	2,795
	10,168	9,042

14. Long-term liabilities

	30th June 2010		31st December 2009	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Long-term loans	3,617	13,895	4,140	15,159
Obligations under finance leases	2,657	20,783	3,688	19,655
	6,274	34,678	7,828	34,814

15. Other long-term payables

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

16. Trade and other receivables

	30th June 2010 HK\$M	31st December 2009 HK\$M
Trade debtors	5,555	4,771
Derivative financial assets – current portion	965	746
Other receivables and prepayments	2,851	2,631
Due from associates	15	13
	9,386	8,161

	30th June 2010 HK\$M	31st December 2009 HK\$M
Analysis of trade debtors by age:		
Current	5,505	4,741
One to three months overdue	41	27
More than three months overdue	9	3
	5,555	4,771

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.

17. Trade and other payables

	30th June 2010 HK\$M	31st December 2009 HK\$M
Trade creditors	5,112	4,832
Derivative financial liabilities – current portion	1,963	1,884
Other payables	6,624	5,970
Due to associates	68	131
Due to other related companies	293	137
Bank overdrafts – unsecured	8	11
	14,068	12,965

	30th June 2010 HK\$M	31st December 2009 HK\$M
Analysis of trade creditors by age:		
Current	4,993	4,713
One to three months overdue	105	106
More than three months overdue	14	13
	5,112	4,832

18. Share capital

During the period under review, the Group did not purchase, sell or redeem any of its shares. At 30th June 2010, 3,933,844,572 shares were in issue (31st December 2009: 3,933,844,572 shares).

19. 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 2010 HK\$M	31st December 2009 HK\$M
Authorised and contracted for	34,130	35,982
Authorised but not contracted for	1,210	4,458
	35,340	40,440

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

	30th June 2010 HK\$M	31st December 2009 HK\$M
Associates	62	62
Staff	200	200
	262	262

- (c) The Company has under certain circumstances undertaken to maintain specified rates of return within the Group's leasing arrangements. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.
- (d) The Company operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected 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 and proceedings with regard to its air cargo operations by the competition authorities of various jurisdictions, including the European Union, Canada, Australia, Switzerland, Korea and New Zealand. The Company has been cooperating with the authorities in their investigations and, where applicable, vigorously defending itself. The investigations and proceedings are focused on issues relating to pricing and competition. The Company is represented by legal counsel in connection with these matters.

On 24th December 2007, the Company received a Statement of Objections from the European Commission with regard to the Company's air cargo operations and, with the assistance of legal counsel, has responded.

On 15th December 2008, the Company received a Statement of Claim from the New Zealand Commerce Commission with regard to the Company's air cargo operations. The Company, with the assistance of legal counsel, has responded.

19. Commitments and contingencies (continued)

On 17th July 2009, the Company received an Amended Statement of Claim from the Australian Competition & Consumer Commission with regard to the Company's air cargo operations. The Company, with the assistance of legal counsel, has responded.

On 27th May 2010, the Korean Fair Trade Commission ("KFTC") announced it will fine several airlines, including Cathay Pacific, for their air cargo pricing practices. The Company has yet to receive the written decision. The announcement says Cathay Pacific's fine will be KRW 4.098 billion, which is approximately HK\$26 million at the exchange rate current as of the date of the announcement. Cathay Pacific will review the KFTC's decision in detail with its legal counsel and explore the options available.

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

The investigations, proceedings and civil actions are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but holds a provision of HK\$26 million in respect of such liabilities in its accounts. The information usually required by HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is not disclosed on the grounds that it can be expected to prejudice seriously the outcomes.

20. 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 to the Listing Rules on the Stock Exchange throughout the accounting period covered by the interim report.

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

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

The 2010 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

DIRECTORS’ INTERESTS

At 30th June 2010, 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	0.00023
Ian Shiu	1,000	0.00003
Tony Tyler	5,000	0.00013

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

SUBSTANTIAL SHAREHOLDERS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 30th June 2010 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	No. of shares	Percentage of issued capital	Type of interest (Note)
1. Air China Limited	2,830,768,906	71.96	Attributable interest ^(a)
2. China National Aviation Holding Company	2,830,768,906	71.96	Attributable interest ^(b)
3. Swire Pacific Limited	2,830,768,906	71.96	Attributable interest ^(a)
4. John Swire & Sons Limited	2,830,768,906	71.96	Attributable interest ^(c)

Note: At 30th June 2010:

- (a) Under Section 317 of the SFO, each of Air China, China National Aviation Company Limited ("CNAC") and Swire Pacific, being a party to the Shareholders' Agreement in relation to the Company dated 8th June 2006, were deemed to be interested in a total of 2,830,768,906 shares of the Company, comprising:
 - (i) 1,651,008,919 shares directly held by Swire Pacific;
 - (ii) 1,179,759,987 shares indirectly held by Air China and its subsidiaries CNAC, Super Supreme Company Limited and Total Transform Group Limited, comprising the following shares held by their wholly owned subsidiaries: 288,596,335 shares held by Angel Paradise Ltd., 214,851,154 shares held by Custain Limited, 191,922,273 shares held by Easerich Investments Inc., 189,976,645 shares held by Grand Link Investments Holdings Ltd., 207,376,655 shares held by Motive Link Holdings Inc. and 87,036,925 shares held by Perfect Match Assets Holdings Ltd.
- (b) China National Aviation Holding Company is deemed to be interested in a total of 2,830,768,906 shares of the Company, in which its subsidiary Air China is deemed interested.
- (c) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,830,768,906 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 40.07% of the issued capital and approximately 57.25% of the voting rights.

DESIGN:
FORMAT LIMITED
www.format.com.hk
Printed in Hong Kong





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