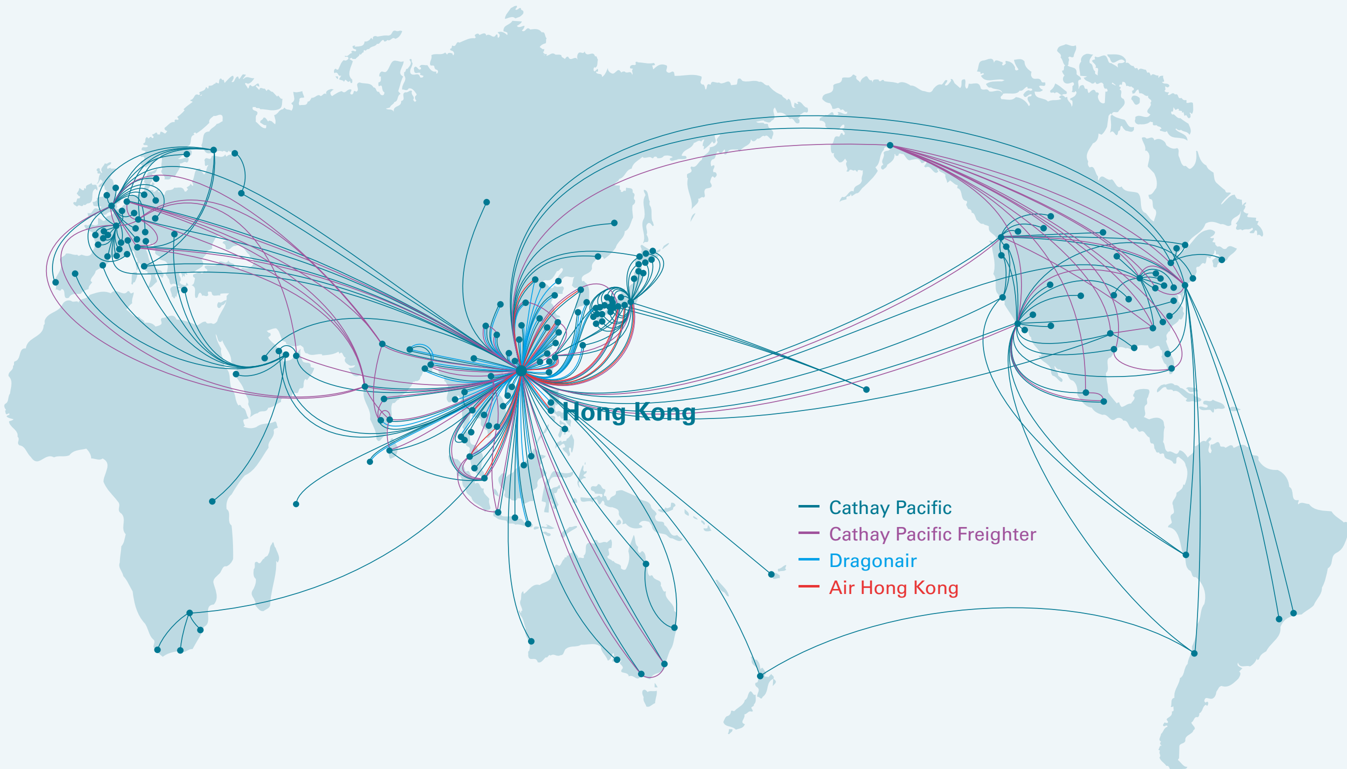
CATHAY PACIFIC

oneworld

Cathay Pacific Airways Limited

INTERIM REPORT 2014

Stock Code: 00293



Contents

CORPORATE INFORMATION

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

INVESTOR RELATIONS

For further information about Cathay Pacific Airways Limited, please contact:

Corporate Communication Department
Cathay Pacific Airways Limited
7th Floor, North Tower
Cathay Pacific City
Hong Kong International Airport
Hong Kong

Email: ir@cathaypacific.com
Tel: (852) 2747 5210
Fax: (852) 2810 6563

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 188 destinations in 47 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 international aviation centres. In addition to its fleet of 142 aircraft, these investments include catering and ground-handling companies and its corporate headquarters and cargo terminal at Hong Kong International Airport. Cathay Pacific continues to invest heavily in its home city and at 30th June 2014 had 89 new aircraft due for delivery up to 2024.

Hong Kong Dragon Airlines Limited ("Dragonair"), a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 40 aircraft on scheduled services to 49 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 20.13% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Cathay Pacific is the majority shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in Asia.

Cathay Pacific and its subsidiaries employ more than 32,200 people worldwide, of which more than 24,800 are employed in Hong Kong. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **one**world global alliance, whose combined network serves more than 994 destinations worldwide. Dragonair is an affiliate member of **one**world.

Financial and Operating Highlights

GROUP FINANCIAL STATISTICS

		2014	2013	
		Six months ended 30th June		Change
Results				
Turnover	*HK$ million*	**50,840**	48,584	**+4.6%**
Profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**347**	24	**+1,345.8%**
Earnings per share	*HK cents*	**8.8**	0.6	**+1,366.7%**
Dividend per share	*HK$*	**0.10**	0.06	**+66.7%**
Profit margin	*%*	**0.7**	0.1	**+0.6%pt**
		30th June	31st December	
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**60,830**	62,888	**-3.3%**
Net borrowings	*HK$ million*	**41,448**	39,316	**+5.4%**
Shareholders' funds per share	*HK$*	**15.5**	15.9	**-2.5%**
Net debt/equity ratio	*Times*	**0.68**	0.63	**+0.05 times**

OPERATING STATISTICS – CATHAY PACIFIC AND DRAGONAIR

		2014	2013	
		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	*Million*	**13,545**	12,520	**+8.2%**
Available seat kilometres ("ASK")	*Million*	**65,474**	62,187	**+5.3%**
Revenue passengers carried	*'000*	**15,437**	14,497	**+6.5%**
Passenger load factor	*%*	**83.6**	81.3	**+2.3%pt**
Passenger yield	*HK cents*	**66.6**	69.0	**-3.5%**
Cargo and mail carried	*'000 tonnes*	**804**	741	**+8.5%**
Cargo and mail load factor	*%*	**63.2**	62.4	**+0.8%pt**
Cargo and mail yield	*HK$*	**2.17**	2.33	**-6.9%**
Cost per ATK (with fuel)	*HK$*	**3.57**	3.69	**-3.3%**
Cost per ATK (without fuel)	*HK$*	**2.20**	2.23	**-1.3%**
Aircraft utilisation	*Hours per day*	**12.0**	11.6	**+3.4%**
On-time performance	*%*	**70.7**	77.7	**-7.0%pt**

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$347 million for the first six months of 2014. This compares to a profit of HK$24 million in the first half of 2013. Earnings per share were HK8.8 cents compared to earnings per share of HK0.6 cents for the corresponding period in the previous year. Turnover for the period rose by 4.6% to HK$50,840 million.

When we announced our 2013 annual results in March this year, we stated that the business outlook for 2014 looked to be improved when compared to the previous year. However, a number of factors had a significant negative impact on our business in the first six months of 2014. The principal adverse factors were reduced passenger yield, continued weakness and over-capacity in the air cargo market, the continued high fuel price and a weak performance from our associated company, Air China.

Fuel remains the Group's most significant cost. In the first half of 2014 our fuel costs increased by 5.2% compared to the same period in 2013. Fuel accounted for 37.9% of our total operating costs, which represents a 0.9 percentage point decrease compared with the corresponding period in 2013. In the first half of 2014, hedging activities resulted in a gain of HK$1,024 million. A significant amount of this gain is unrealised. Managing the risk associated with high and volatile fuel prices remains a high priority for us. Our fuel hedging extends to 2017 and we have taken advantage of downward movements in fuel prices to take up new hedging positions. We continue to increase fuel efficiency by modernising our fleet. We are also focused on controlling costs.

The Group's passenger revenue in the first six months of 2014 increased by 4.4% to HK$36,520 million compared to the same period in 2013. Capacity increased by 5.3% as a result of the introduction of new routes (to Doha and Newark) and increased frequencies on existing long-haul routes. The load factor increased by 2.3 percentage points to 83.6%, but the increase in passenger numbers was at the expense of yield, which fell by 3.5% to HK66.6 cents. Passenger demand was strong in all classes of travel on long-haul routes, particularly to North America and London. Demand on regional routes was generally robust, although strong competition put downward pressure on yield and demand was weak on certain Southeast Asian routes.

The world's air cargo industry has been affected by weak demand since 2011. The Group's cargo revenue for the first half of 2014 was HK$11,663 million, a rise of 3.4% compared to the same period in previous year. Yield for Cathay Pacific and Dragonair decreased by 6.9% to HK$2.17. Capacity increased by 10.8%, while the load factor rose by 0.8 percentage points to 63.2%. Over-capacity in the industry remains a major concern and has made it difficult to increase rates. We continued to manage capacity in line with demand in the first half of 2014. More of our cargo was carried in the bellies of passenger aircraft, reflecting increased use of Boeing 777-300ER aircraft. Our new cargo terminal in Hong Kong is operating smoothly and now provides services for airlines outside the Cathay Pacific Group.

We continue to modernise our fleet. In the first six months of 2014 we took delivery of five new aircraft: two Boeing 777-300ERs, two Airbus A330-300s, and (for Dragonair) one Airbus A321-200. Two Boeing 747-400 passenger aircraft were retired during the period. As part of agreements entered into with The Boeing Company in 2013 we are selling our six Boeing 747-400F freighters back to The Boeing Company. Four of these freighters are now parked and all six will have left the fleet by 2016. In the first half of 2014, we planned the accelerated retirement of 11 Airbus A340-300 aircraft. Four of these aircraft will be retired by the end of 2015 and the remaining seven will be retired by the end of 2017. At 30th June 2014 we had 90 aircraft on order for delivery by 2024. In the second half of 2014, Cathay Pacific and Dragonair will take delivery of 11 new aircraft. Two of them were delivered in July and two of them were scheduled to be delivered in August. Four Boeing 747-400 passenger aircraft will be retired, two of them were retired in August.

We continue to develop our passenger and cargo networks. Cathay Pacific introduced services to Doha and Newark in March and has announced the introduction of services to Manchester and Zurich from December 2014 and March 2015 respectively. The Los Angeles service was increased to four-times-daily in June. The Chicago service was increased to 10 flights per week (from daily) in August. We have added one more daily Osaka service. We also reorganised our network in the Middle East. We stopped flying to Abu Dhabi, Karachi and Jeddah but have improved our schedules on other Middle Eastern routes. Dragonair started flying to Denpasar-Bali and Penang (replacing Cathay Pacific on the latter route). Dragonair increased frequencies on the Beijing, Da Nang, Kaohsiung, Phuket and Siem Reap routes. The frequency on the Yangon route will become daily from September. Cathay Pacific tagged Mexico City onto its Guadalajara cargo service and increased this service from two to three flights per week. A cargo service to Columbus in the United States was introduced in March and moved to three flights per week from June. We will introduce a cargo service to Calgary in Canada from October. We stopped operating a cargo service to Manchester in June.

Our new business class, premium economy class and economy class seats have been installed in all Cathay Pacific's Boeing 777-300ER and long-haul Airbus A330-300 aircraft. Installation of new regional business class seats is almost complete. The update of our first class seats in Boeing 777-300ER aircraft will be finished by March 2015. New business and economy class seats had been installed in 23 Dragonair aircraft by the end of June. The first Dragonair aircraft to be fitted with new first class seats entered service in February. We have started to refurbish The Pier, one of our four departure lounges at Hong Kong International Airport, with work scheduled to be completed by the middle of 2016.

The Group (which accounts for its share of Air China's results three months in arrear) recorded a loss from Air China in the first half of 2014. Air China's results were adversely affected by a difficult operating environment and substantial foreign exchange losses caused by the depreciation of the Renminbi. Steps have been taken to improve the financial performance of Air China Cargo, our cargo joint venture with Air China, including the purchase of fuel-efficient Boeing 777-200F freighters to replace the joint venture's Boeing 747-400BCF converted freighters. Four of these new aircraft have been delivered and one more will be delivered in the second half of 2014. In June, we announced a substantial injection of capital and loans into Air China Cargo by its shareholders. This injection is to provide funds to assist the carrier to renew its fleet and improve the performance of its main cargo business.

The operating environment for the Cathay Pacific Group – and the aviation industry as a whole – remains challenging. We face significant competition in our passenger business. This makes it difficult to maintain yields. The air cargo business remains problematic because of excess capacity. Intense competition similarly puts pressure on yield. On the plus side, we continue to strengthen our passenger network and the connections available through Hong Kong. The high quality of our products and services increases our attractiveness to passengers. We expect our new freighter fleet and new cargo terminal to allow us to compete successfully in the air cargo market in the long term.

We expect business to be better in the second half of 2014. Our financial position remains strong and will enable us, despite the current difficult trading conditions, to maintain the quality of our products and services and to continue with our long-term strategic investment in the business. As always, we remain committed to strengthening the world class aviation hub in our home, Hong Kong. Finally, we are particularly pleased that in July, Cathay Pacific was named the World's Best Airline in the annual World Airline Awards run by Skytrax. This is the fourth time we have received this award, which is decided by public voting.

John Slosar
Chairman
Hong Kong, 13th August 2014

The Cathay Pacific Group continued to operate in a challenging environment in the first half of 2014. Passenger and cargo yield was under pressure. High fuel prices continued to affect results adversely. We continued to develop our networks, to modernise our fleet and to improve our products and services. We invest for long-term success and to strengthen Hong Kong's position as one of the world's leading aviation hubs.

AWARD-WINNING PRODUCTS AND SERVICES

- In July 2013, we started to refresh the first class seats in our Boeing 777-300ER aircraft, aiming to rejuvenate the look and feel of the cabin and to improve bed linen, headsets and seat controls. At 30th June 2014, 20 aircraft had been equipped with refreshed first class seats. The refreshment will be finished by March 2015.
- All Cathay Pacific's Boeing 777-300ER and long-haul Airbus A330-300 aircraft now have new long-haul business class seats, premium economy class seats and long-haul economy class seats.
- The installation of new regional business class seats was completed in our Boeing 777-300 aircraft in January and is expected to be completed in our Airbus A330-300 aircraft and Boeing 777-200 aircraft in August 2014 and January 2015 respectively.
- Dragonair's first aircraft to be fitted with new first class seats entered service in February.
- New business class and economy class seats are being installed in all Dragonair's Airbus A330-300 aircraft intended to operate with three classes of seats. They had been installed in 23 Dragonair aircraft by the end of June. Installation is expected to be completed in August.
- The Pier, which was the second Cathay Pacific lounge to open at Hong Kong International Airport, is closed for renovation. The first class lounge will reopen in the middle of 2015 and the business class lounge will reopen in the middle of 2016.
- A refurbished lounge at Penang International Airport was opened in January.
- Cathay Pacific jointly developed a new business lounge with Qantas and British Airways at Los Angeles International Airport. Part of it was opened in June.
- In May, we started to stream digital newspapers and magazines to passengers in our lounges in Hong Kong International Airport. We will extend the service to our lounges outside Hong Kong.
- In July, Cathay Pacific was named the World's Best Airline in the annual World Airline Awards run by Skytrax. This is the fourth time we have received this award, which is decided by public voting.
- Cathay Pacific received the Best Business Class award from Airlineratings.com, a gold medal at the Best Business Class Red Wine in the Cellars in the Sky awards and team and individual awards at the Customer Service Excellence Awards 2013 organised by the Hong Kong Association for Customer Service Excellence.

HUB DEVELOPMENT

- The Cathay Pacific Group remains committed to the long-term development of Hong Kong International Airport as a premier international hub for passenger and cargo traffic. We continue to develop our networks and frequencies where possible, so providing customers with more choices and convenience.

- Cathay Pacific fully supports the building of a third runway at Hong Kong International Airport. The airline expressed its continued support for the project following the publication by the Airport Authority of Hong Kong of the environmental impact assessment for the third runway in June.

- We manage capacity in line with passenger and cargo demand. But keeping our networks intact remains a priority.

- In the first half of 2014, the passenger capacity of Cathay Pacific and Dragonair increased by 5.3% compared to the same period in 2013. This reflected the introduction of new routes and increased frequencies on some existing routes. Cathay Pacific's capacity grew by 5.2%. Dragonair's capacity grew by 6.2%.

- In March, Cathay Pacific introduced daily services to Newark in the United States and to Doha.

- We started flights to Doha and introduced a number of codeshare services as part of a strategic agreement with Qatar Airways. We rationalised our network in the Middle East at the same time, stopping services to Abu Dhabi and Jeddah and improving our schedules on other Middle Eastern routes.

- We made adjustments to our Australia services in March, removing some of the triangular routings in order to strengthen our direct services to and from Adelaide, Brisbane, Cairns and Melbourne.

- The Los Angeles service was increased to four-times-daily in June. The Chicago service was increased to 10 flights per week (from daily) in August. In February, we added one more daily flight to Osaka.

- We reduced capacity on the Bangkok route as political unrest in Thailand affected demand.

- We improved our Delhi service by removing the Bangkok tag on one of the two daily flights, making all flights to Delhi become non-stop.

- We will enhance service to Colombo in Sri Lanka by introducing four non-stop flights a week from October, which replace the flights that currently stop in Singapore.

- We stopped flying to Karachi in Pakistan in June.

- Cathay Pacific will introduce a four-times-weekly service to Manchester in December 2014 and a daily service to Zurich in March 2015.

- Cathay Pacific stopped operating to Penang. Dragonair is operating the route instead. The schedule and frequency (10 flights per week) remain the same.

- Dragonair introduced a twice weekly service to Denpasar-Bali in April.

- Dragonair's Da Nang service is now daily and its service to Siem Reap is now four-times-weekly all the year round. Extra Dragonair flights to Beijing, Kaohsiung and Phuket were introduced. The frequency on Dragonair's Yangon route will become daily from September.

- Cathay Pacific tagged Mexico City onto its Guadalajara cargo service and increased this service from two to three flights per week. A twice weekly cargo service to Columbus in the United States was introduced in March and moved to three flights per week from June. We stopped operating a cargo service to Manchester in June. The frequency of cargo flights to Chicago, Los Angeles and Vancouver was increased. We announced the introduction of a cargo service to Calgary in Canada from October.

- The HK$5.9 billion Cathay Pacific cargo terminal became fully operational at Hong Kong International Airport in the last quarter of 2013 and is operating smoothly. We expect it to improve the efficiency of our air cargo operations in Hong Kong significantly in the long term.

FLEET DEVELOPMENT

- At 30th June 2014, Cathay Pacific operated 142 aircraft and Dragonair operated 40 aircraft (a total of 182 aircraft). We had 90 new aircraft on order for delivery up to 2024.

- In the first half of 2014, we took delivery of five new aircraft: two Boeing 777-300ERs, two Airbus A330-300s and (for Dragonair) one Airbus A321-200.

- Two Boeing 747-400 passenger aircraft were retired during the period. As part of agreements entered into with The Boeing Company in 2013, we are selling our six Boeing 747-400F freighters back to The Boeing Company. Four of these freighters are now parked and all six will have left the fleet by 2016.

- In the first half of 2014, we planned the accelerated retirement of 11 Airbus A340-300 aircraft. Four of these aircraft will be retired by the end of 2015 and the remaining seven will be retired by the end of 2017.

- In the second half of 2014, we will take delivery of 11 new aircraft, two of them were delivered in July and two of them were scheduled to be delivered in August. We will also retire four Boeing 747-400 passenger aircraft, two of them were retired in August.

ADVANCES IN TECHNOLOGY

- Airborne trials of our eEnabled aircraft technology and ground systems began in May. In June, we started to evaluate the systems with the Hong Kong Civil Aviation Department. This evaluation will take at least six months. The eEnabled technology will facilitate improvements in working practices and reduce costs. It will be installed in existing aircraft (with the exception of Boeing 747-400 and Airbus A340-300 passenger aircraft) and in newly delivered aircraft.

- We are introducing a new departure control system for Cathay Pacific and Dragonair. Testing and airport staff training has been completed. The system began to be used in some overseas airports from June and will be progressively introduced to the full networks of the two airlines. The project will be completed by the end of 2014.

- We conducted a trial of a self-service bag-drop facility at Hong Kong International Airport with the Airport Authority between December 2013 and April 2014. We expect this facility to be introduced in 2015.

- After a successful trial, we will start using mobile tablet devices in all our aircraft beginning from early 2015.

- Cathay Pacific's mobile and web developers have updated existing mobile apps for staff and introduced new apps focusing on business performance statistics and an inflight passenger information list for cabin crew. The latter received an award at the ICT Awards 2014.

PARTNERSHIPS

- SriLankan Airlines became a member of the **one**world alliance in May. Cathay Pacific sponsored the carrier's entry into the alliance.
- Cathay Pacific entered into codeshare arrangements with Qatar Airways in February. The arrangements cover Qatar Airways' flights between Doha and Hong Kong, Athens, Barcelona, Budapest, Geneva, Jeddah, Madrid, Nairobi and Venice and Cathay Pacific flights between Hong Kong and Doha, Adelaide, Auckland, Brisbane, Cairns, Melbourne, Nagoya, Osaka, Perth, Seoul, Sydney and Tokyo.
- US Airways became an affiliate member of the **one**world alliance in March following its merger with American Airlines in December 2013.
- Cathay Pacific, Dragonair and TAM Paraguay, formerly TAM Mercosur, entered into an interline traffic agreement in January.
- In March, Finnair added its code on Cathay Pacific flights to Auckland and Cairns.
- In March, Cathay Pacific added its code on Dragonair flights to Penang.
- Cathay Pacific added its code on Dragonair flights to Denpasar-Bali when the service was introduced in April.
- In April, American Airlines added its code on Cathay Pacific flights to Newark.
- Cathay Pacific added its code on American Airlines flights between Hong Kong and Dallas, which began operating in June.

ENVIRONMENT

- Cathay Pacific is involved in the Global Market-based Measure Technical Task Force, under the auspices of the International Civil Aviation Organization. This task force is leading the industry's work to develop airlines' commitment to carbon neutral growth by 2020, and in developing proposals for a fair and equitable global agreement on emissions.
- Cathay Pacific engages with regulators and groups involved in shaping climate change and aviation policy as part of its climate change strategy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- Cathay Pacific supports market-based measures as an interim solution to reduce aviation's emissions, but does not support the imposition of the European Union's Emissions Trading Scheme (EU ETS) on carriers based outside Europe. Hence, we welcomed the deferment of the start of EU ETS (insofar as it relates to flights which are not intra-European flights) until 2016.
- In compliance with EU ETS, our emissions data for 2013 were externally verified and our emissions report was submitted to the UK Environment Agency in March 2014.
- A decal signifying our participation in the Airbus-supported In-service Aircraft for a Global Observing System project was applied to the fuselage of a Cathay Pacific Airbus A330-300 aircraft. Instruments fitted on the aircraft will collect atmospheric data over a 10-year period that will aid scientific studies of climate change.
- Cathay Pacific received the Gold Award in the Transport and Logistics Sector of the Hong Kong Awards for Environmental Excellence.

- We have donated 1,700 sleep suits left behind by our first class passengers on our Hong Kong bound flights to local charities to give to the needy in Hong Kong and elsewhere.
- In March, Cathay Pacific participated in the WWF's annual Earth Hour activity. We switched off all non-essential lighting in our buildings and billboards during this hour.
- Our Sustainable Development Report 2013 is to be published before the end of August. It will be available on www.cathaypacific.com/sdreport.
- We share environmental best practice and experience with Air China.

CONTRIBUTION TO THE COMMUNITY

- In January, Hong Kong SAR Chief Executive CY Leung was guest of honour on a special community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300ER aircraft was a special treat for some 70 single-parent families from less-well-off districts in Hong Kong. Most of the participants had never flown before. The flight was organised in support of the Commission on Poverty's "Bless Hong Kong" campaign.
- The aircraft used in the flight was painted with a special livery which features the silhouettes of the winners of the "Spirit of Hong Kong" contest organised in 2013 in support of the Hong Kong SAR Government's "Hong Kong: Our Home" campaign.
- Cathay Pacific continued to support UNICEF through its "Change for Good" inflight fundraising programme. In April, a group of Cathay Pacific staff went to Cambodia to see how "Change for Good" donations have been put to good use in the local community.
- A percentage of the "Change for Good" donations are passed to the Cathay Pacific Wheelchair Bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases. Since its formation, the bank has raised more than HK$11 million, benefiting around 420 children.
- The CX Volunteers, made up of more than 1,300 Cathay Pacific staff, continued to help the local community in Hong Kong. Their activities included the "English on Air" programme, which has helped more than 2,000 students to improve their conversational English skills; participation in a 24-hour pedal kart event, which developed young people's teamwork; brightening up the homes of senior citizens at Chinese New Year and a charity sale for low-income families in Tung Chung. We organised a recognition ceremony for the CX Volunteers in April to acknowledge their commitment to helping others and having provided more than 16,000 service hours over the previous two years.
- "I Can Fly" is Cathay Pacific's flagship community programme in Hong Kong. Around 500 young people from under-privileged backgrounds took part in the programme this year. The young people, aged from 15 to 21, participated in ground-school training, visited aviation organisations and designed a social service project intended to give them a better understanding of their roles within the community. The 100 best performers were taken on an overseas trip. Targeting under-privileged young people was in support the Commission on Poverty's "Bless Hong Kong" campaign.
- In April, the Dragonair Youth Aviation Academy organised a two-day aviation career workshop for more than 200 young people, providing them with an opportunity to learn about aviation and careers in the aviation industry.

- The Dragonair Aviation Certificate Programme is organised with the Hong Kong Air Cadet Corps. In 2014, 33 participants started to be mentored by Dragonair pilots over eight months, gaining firsthand knowledge of the aviation industry. To date there have been 145 participants in the programme. About 43% of them have started to work in aviation.

COMMITMENT TO STAFF

- The Cathay Pacific Group employs more than 32,200 people worldwide. More than 24,800 of these people are based in Hong Kong. Cathay Pacific itself employs more than 22,000 people worldwide. Dragonair employs almost 3,200 people.
- Cathay Pacific expects to recruit more than 1,000 cabin crew and 90 pilots in 2014. Dragonair expects to recruit around 40 pilots and 360 cabin crew.
- Our airlines' cadet programmes continue to bring new blood into Hong Kong's aviation industry. We expect that in 2014 about 70 cadets will graduate from the Cathay Pacific cadet pilot programme and that about 25 cadets will graduate from the Dragonair cadet pilot programme.
- We have introduced an IT graduate trainee programme. Ten local graduates, selected from more than 400 applicants, will join Cathay Pacific's IT team in September.
- Our engineering trainee scheme was introduced in 1985 and has brought more than 100 young engineers into the Group. A number of them are now in senior positions.
- We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.
- Cathay Pacific was named the most attractive employer in Hong Kong in the 2014 Randstad Award. Dragonair was named the third most attractive employer in Hong Kong.
- In January we co-sponsored the Discover Aviation Careers 2014 expo in Hong Kong in order to highlight the opportunities available in the local aviation industry.
- Two Cathay Pacific pilots, Captain Malcolm Waters and First Officer David Hayhoe, received the International Federation of Air Line Pilots' Associations Polaris Award in recognition of their exceptional airmanship in piloting a Cathay Pacific aircraft that had engine malfunctions when operating as CX780 from Surabaya to Hong Kong in April 2010.
- The 10th annual Betsy Awards ceremony took place in early August. This internal programme honours staff who go beyond the call of duty to help passengers.

FLEET PROFILE*

Aircraft type	Number at 30th June 2014				Firm orders				Expiry of operating leases						
		Leased													
	Owned	Finance	Operating	**Total**	'14	'15	'16 and beyond	**Total**	'14	'15	'16	'17	'18	'19 and beyond	Options
Aircraft operated by Cathay Pacific:															
A330-300	16	15	6	**37**	3	3		**6**		2	1	1		2	
A340-300	6	5		**11**[a]											
A350-900							22[b]	**22**							
A350-1000							26	**26**							
747-400	10[c]		1	**11**						1					
747-400F	6			**6**[d/e]											
747-400BCF			1[f]	**1**									1		
747-400ERF		6		**6**											
747-8F	2	11		**13**			1[e]	**1**							
777-200	5			**5**											
777-200F															5[g]
777-300	8	4		**12**											
777-300ER	9	11	20	**40**	7	6[e]		**13**				2	2	16	
777-9X							21[e]	**21**							
Total	62	52	28	**142**	10	9	70	**89**		3	1	3	3	18	5
Aircraft operated by Dragonair:															
A320-200	5		10	**15**									2	8	
A321-200	2		5	**7**	1[h]			**1**						5	
A330-300	8		10	**18**					2	1	2	4		1	
Total	15		25	**40**	1			**1**	2	1	2	4	2	14	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6		**8**											
747-400BCF			3	**3**							1	2			
Total	2	6	3	**11**[i]							1	2			
Grand total	**79**	**58**	**56**	**193**	**11**	**9**	**70**	**90**	**2**	**4**	**4**	**9**	**5**	**32**	**5**

* Includes parked aircraft. The table does not reflect aircraft movements after 30th June 2014.

(a) Cathay Pacific planned the accelerated retirement of 11 Airbus A340-300 aircraft. Four of these aircraft will be retired by the end of 2015 and the remaining seven will be retired by the end of 2017.
(b) Including two aircraft on 12-year operating leases.
(c) Two aircraft were retired in August 2014.
(d) Four aircraft were parked, one in May 2013, two in January 2014 and one in February 2014.
(e) In December 2013, Cathay Pacific agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters.
(f) Aircraft was parked in August 2013.
(g) Purchase options in respect of five Boeing 777-200F freighters.
(h) Aircraft on an 8-year operating lease.
(i) Air Hong Kong operates a total of 13 aircraft. It has two Airbus A300-600F freighters on wet leases, with lease terms ending in 2015. In May, Air Hong Kong early terminated one of the wet leases, which will be changed to a dry lease with effect from October 2014.

REVIEW OF OTHER SUBSIDIARIES AND ASSOCIATES

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

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60% owned by Cathay Pacific. It operates express cargo services for DHL Express.
- The airline operates a fleet of eight owned Airbus A300-600F freighters, three Boeing 747-400BCF converted freighters dry leased from Cathay Pacific. It also has two Airbus A300-600F freighters on wet leases, with lease terms ending in 2015. In May, Air Hong Kong early terminated one of the wet leases, which will be changed to a dry lease with effect from October 2014.
- Air Hong Kong operates six flights per week services to each of Bangkok, Nagoya, Osaka, Seoul, Shanghai, Singapore, Taipei and Tokyo, and five flights per week services to each of Beijing, Ho Chi Minh City, Manila and Penang (via Ho Chi Minh City).
- On-time performance was 90% within 15 minutes.
- Capacity and load factor increased marginally compared with the first half of 2013. Revenue tonne kilometres increased by 1.0%.
- Air Hong Kong recorded a higher profit in the first half of 2014 compared with the first half of 2013.

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

- CPCS, a wholly owned subsidiary, is the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 41 international airlines in Hong Kong. It produced a daily average of 74,000 meals and handled 186 flights per day in the first half of 2014 (an increase of 8.0% and 7.0% respectively over the first half of 2013). CPCS had a 65.0% share of the flight catering market in Hong Kong.
- CPCS reported a rise in profit in the first half of 2014 compared to the first half of 2013. This was due to an increase in business volume and effective management of operating costs.
- Outside Hong Kong, increases in profit were reported in Taipei and Toronto.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, operates the new Cathay Pacific cargo terminal at Hong Kong International Airport. It has the capacity to handle 2.6 million tonnes of cargo annually. Now that it is fully operational, the HK$5.9 billion facility is significantly reducing the time it takes to process and ship cargo in Hong Kong.
- CPSL reported a reduced loss for the first half of 2014 compared with the same period in 2013. The improvement mainly reflected the fact that the cargo terminal became fully operational in October 2013.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services in Hong Kong. It provides ground services to 24 airlines, including Cathay Pacific and Dragonair. It also holds a 25% interest in Shanghai International Airport Services Co., Limited.
- In the first half of 2014, HAS had 48.0% and 21.0% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- The number of customers for passenger handling decreased from 24 to 19 in the first half of 2014. The number of customers for ramp handling decreased from 25 to 21. Passenger handling flights decreased by 6.9% and ramp handling flights increased by 0.4% compared with the same period in 2013.
- The drop in the number of customers was expected as we could only retain customers willing to accept higher charges necessitated by higher costs and manpower shortages.
- The financial results for the first half of 2014 improved compared with the same period in 2013. The improvement was attributable to higher handling rates introduced during the first half of 2014. Some customers switched to lower cost service providers. This is likely to have an adverse effect on the full year's financial performance.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 20.13% interest, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China.
- At 30th June 2014, Air China operated 229 domestic and 94 international (including regional) routes to 32 countries and regions, including 53 overseas cities, three regional cities and 106 domestic cities.
- The Group's share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently the 2014 interim results include Air China's results for the six months ended 31st March 2014, adjusted for any significant events or transactions for the period from 1st April 2014 to 30th June 2014.
- The Group recorded a loss from Air China in the first half of 2014. Air China's results were adversely affected by a difficult operating environment and substantial foreign exchange losses caused by the depreciation of the Renminbi.

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

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China.

- At 30th June 2014, Air China Cargo operated a fleet of 10 freighters. It operates scheduled freighter services to seven countries and regions. It flies to 10 cities in Mainland China and 10 cities outside Mainland China. Taking account of its right to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections with a total of 151 destinations.

- In June, we announced a substantial injection of capital and loans into Air China Cargo by its shareholders. This injection is to provide funds to assist the carrier to renew its fleet and improve the performance of its main cargo business.

- The Group recorded a reduced loss from Air China Cargo in the first half of 2014 compared to the first half of 2013. This was mainly due to the retirement of older aircraft and the introduction of more modern ones.

HAECO ITM Limited ("HXITM")

- HXITM, in which Cathay Pacific has a 30% interest, provides aircraft inventory technical management services to the Cathay Pacific Group and other airlines.

- At 30th June 2014, HXITM provided services for more than 220 aircraft, an increase of 9.8% compared with the same period in 2013.

- HXITM reported an improvement in results in the first half of 2014 compared to the first half of 2013.

Shanghai International Airport Services Co., Limited ("SIAS")

- SIAS is a joint venture between HAS (25%), Air China (24%), Shanghai Airport Authority (10%) and Shanghai International Airport Co., Ltd. (41%). SIAS provides airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport.

- SIAS provides services to 11 domestic airlines, three international airlines and three private jet companies at Hongqiao. At Pudong, SIAS provides services to 13 domestic airlines, 20 international airlines and two private jet companies.

- The financial results for the first half of 2014 were better than expected, because of increases in the numbers of customer airlines served and flights handled and cost savings.

PASSENGER SERVICES

The Group's passenger revenue in the first six months of 2014 increased by 4.4% to HK$36,520 million compared to the same period in 2013. Capacity increased by 5.3% as a result of the introduction of new routes and increased frequencies on existing long-haul routes. The load factor increased by 2.3 percentage points to 83.6%, but the increase in passenger numbers was at the expense of yield, which fell by 3.5% to HK66.6 cents.

Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair passenger services for the first half of 2014 were as follows:

	ASK (million)			Load factor (%)			Yield
	2014	2013	**Change**	**2014**	2013	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**5,512**	5,356	**+2.9%**	**78.2**	75.5	**+2.7%pt**	**-7.0%**
Southwest Pacific and South Africa	**8,849**	8,783	**+0.8%**	**84.8**	78.5	**+6.3%pt**	**-6.7%**
Southeast Asia	**8,973**	9,001	**-0.3%**	**80.4**	79.5	**+0.9%pt**	**-3.9%**
Europe	**10,423**	10,316	**+1.0%**	**87.4**	86.8	**+0.6%pt**	**+2.5%**
North Asia	**14,431**	13,973	**+3.3%**	**77.9**	73.9	**+4.0%pt**	**-3.4%**
North America	**17,286**	14,758	**+17.1%**	**88.7**	89.3	**-0.6%pt**	**-4.4%**
Overall	**65,474**	62,187	**+5.3%**	**83.6**	81.3	**+2.3%pt**	**-3.5%**

- The high fuel price continued to affect the profitability of our passenger services. This was mitigated in part by operating more fuel efficient aircraft. However, we operated more flights compared to the same period of last year, which increased the amount of fuel used.

- Business was affected by the weakness of a number of currencies relative to the Hong Kong and United States dollars.

- The passenger load factor was generally higher in the first half of 2014 than in the corresponding period in 2013, for both Cathay Pacific and Dragonair. Business traffic was generally in line with expectations, though the impact of the Canton Fair in April was not as strong as expected.

- Passenger capacity in the first half of 2014 was 5.3% higher than in the same period of last year. This reflected the introduction of new routes and increased frequencies on existing long-haul routes, including those which took effect in the second half of 2013.

- The growth in passenger numbers was at the expense of yield, which was under pressure throughout the first half of 2014. This pressure reflected the addition of capacity by Cathay Pacific, Dragonair and our competitors, stronger competition in key markets and an increase in connecting traffic through the Hong Kong hub.

- We continue to increase long-haul capacity. We introduced services to Doha and Newark in March. The Los Angeles service was increased to four-times-daily in June. The Chicago service was increased to 10 flights per week (from daily) in August. We will introduce a four-times-weekly service to Manchester in December 2014 and a daily service to Zurich in March 2015. We made ad hoc cancellations on certain routes to ensure they were operating profitably.

- Dragonair added services to Denpasar-Bali and Penang (the latter replacing Cathay Pacific's service on this route). Dragonair strengthened its services to Beijing, Da Nang, Kaohsiung, Phuket and Siem Reap. The frequency on the Yangon route will become daily from September.

- Demand for travel from Hong Kong was robust in the first half of 2014, with good demand for leisure travel to long-haul and regional destinations. Demand for travel to North Asia – Japan, Korea and Taiwan – was particularly strong, though political unrest affected demand for travel to certain Southeast Asian countries.

- We continued to run our successful "fanfares" promotion offering weekly discounted fares to various destinations in order to appeal to a wide range of customers in our home market.

- There was an increase in demand for travel from the Pearl River Delta ("PRD"), though competition from other airports and carriers in the PRD region continues to grow.

- Demand for travel to Mainland China was below expectations in the first half of 2014 as we faced stronger competition from an increased number of airlines. Travel from Mainland China continued to grow, as more people want and can afford to travel.

- Demand for travel to and from Taiwan was generally robust, despite increasing competition and more cross-strait services. There was good demand for travel between Taiwan and Japan and Korea.

- The Korean routes were exceptionally strong, with travel from Hong Kong benefiting from the popularity of a Korean TV drama series. Travel from Korea was reasonably robust.

- Demand for travel to all destinations in Japan was strong in the first half of 2014, benefiting from the weakness of the Japanese yen. We added one more daily flight to Osaka in February. Demand for travel from Japan improved slightly but remained weak.

- The Australian market is increasingly competitive. However, we have been able to benefit from increased traffic flows between Australia and Mainland China. We made adjustments to our Australia services in March, removing some of the triangular routings in order to strengthen our direct services to and from Adelaide, Brisbane, Cairns and Melbourne.

- Our strategic agreement with Air New Zealand has benefited our business on the New Zealand route, and customers have benefited from more travel options. Our alliance with Air New Zealand strengthens our business on the New Zealand route.

- In Southeast Asia, we reduced schedules on the Bangkok route as demand for travel was affected by political unrest. Demand on the Singapore route was strong, though yield was affected by intense competition. Demand on the Philippines routes were affected by the increase in direct services from the Philippines to the Middle East. The strengthening of our North America services benefited our business in Southeast Asia overall.

- There was strong demand for travel from India to North America. However, revenue from India was affected by the weakness of the Rupee and strong competition from Indian carriers.

- We improved our Delhi service by removing the Bangkok tag on one of the two daily flights, making all flights to Delhi non-stop.

- We will enhance service to Colombo in Sri Lanka by introducing four non-stop flights a week from October, which replace the flights that currently stop in Singapore.

- We stopped flying to Karachi in Pakistan in June due to challenging operating economics.

- Demand on the service to Male in the Maldives (which we introduced in October 2013) is in line with expectations.

- Revenues from South Africa were affected by the depreciation of the Rand. The largest source of South African business remains Japan. But demand from Japan has been adversely affected by currency movements.

- We started flights to Doha and introduced a number of codeshare services as part of a strategic agreement with Qatar Airways. We rationalised our network in the Middle East at the same time, stopping services to Abu Dhabi and Jeddah and improving our schedules on other Middle Eastern routes.

- Business, student and leisure demand for travel on the London route was consistently strong in the first half of 2014. The fifth daily service added in 2013 has proved popular. Revenue from the route has grown in line with capacity.

- Capacity on our European routes was lower than in the first half of 2013 due to Boeing 777-300ER aircraft replacing larger aircraft on some routes and the introduction of premium economy class seats. Demand for travel in both premium economy and economy class was strong.

- Business on the United States routes was very strong in the first half of 2014. We have added a lot of capacity to the United States and revenue has grown in line. Load factors on the newly introduced Newark route have increased in line with expectations.

- Load factors on the Canada routes were high, but strong competition put significant downward pressure on yield.

CARGO SERVICES

Our cargo business has been affected by weak demand since 2011. Weak markets, fierce competition and high fuel prices make it difficult to operate profitably. In the first six months of 2014, Cathay Pacific and Dragonair carried 804,000 tonnes of cargo and mail – an increase of 8.5% compared to the same period in 2013. The cargo revenue of Cathay Pacific and Dragonair was up by 4.2% to HK$10,028 million. Yield fell by 6.9% to HK$2.17. Cargo capacity was up by 10.8%. The cargo and mail load factor rose by 0.8 percentage points to 63.2%.

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for the first half of 2014 were as follows:

	ATK (million)			Load factor (%)			Yield
	2014	2013	**Change**	**2014**	2013	**Change**	**Change**
Cathay Pacific and Dragonair	**7,318**	6,607	**+10.8%**	**63.2**	62.4	**+0.8%pt**	**-6.9%**

- Over-capacity in the air cargo markets put downward pressure on rates. Cargo yield for Cathay Pacific and Dragonair fell by 6.9% to HK$2.17 compared to the same period of last year.

- We continued to manage freighter capacity in line with demand. We increased capacity on routes where demand was high and reduced schedules and made ad hoc cancellations elsewhere as necessary. The amount of cargo carried in the bellies of our passenger aircraft increased as we brought more Boeing 777-300ER aircraft into service. For the first time, there was a 50:50 split between the amount of cargo carried in freighters and cargo carried in passenger aircraft bellies.

- The high fuel price affected the profitability of our cargo services, though we benefited from the improved fuel efficiency of our fleet, particularly on transpacific services.

- Our cargo business was very weak in the first two months of 2014. The normal adverse effect of the Chinese New Year holiday was more pronounced than in previous years, leading to very low tonnage figures in February.

- The market recovered in March. The increase in demand was more pronounced than expected. The improvement was subsequently maintained.

- Demand for cargo shipments from our main market, Hong Kong, began to improve in March. But demand for shipments to Europe remained weak and we reduced our schedules accordingly. Demand for transpacific shipments was stronger.

- Our cargo business in Mainland China grew in volume and we increased our market share. Demand for shipments from the Yangtze River Delta was robust. Demand for shipments from new manufacturing centres (Chongqing, Chengdu and Zhengzhou) fluctuated. We adjusted our schedules to reflect these fluctuations. Our cargo business in Mainland China benefited from an increase in mail shipments.

- Shipments of cargo within Asia are an important part of our cargo business. Demand for shipments from Hanoi was robust.

- Demand for shipments from Dhaka was adversely affected by the political situation in Bangladesh.

- Demand for shipments to and from the Southwest Pacific region remained steady. There was strong demand for shipments of fresh produce to Asian markets and of milk powder to Mainland China.

- We reduced the number of cargo flights to Europe from 11 to nine per week because of weak demand for shipments into Europe and over-capacity. We concentrated on shipping pharmaceutical and other special products from Europe, in an effort to improve yield.

- With the reduction in our cargo flights to Europe, we stopped operating cargo services to Manchester in June. The United Kingdom market is served through our twice weekly freighter flights to London and also by carrying cargo in the bellies of our passenger aircraft. In December, a four-times-weekly passenger service to Manchester will be started and there will be cargo capacity available in the bellies of the aircraft.

- Demand for shipments from Asia to North America was strong from March to June. There was also robust demand for shipments of perishables (fruit and seafood) from North America to Asia.

- In March, we introduced a twice weekly service to Columbus in the United States and moved to three flights per week from June. We tagged Mexico City onto our Guadalajara cargo service and increased this service from two to three flights per week.

- We are increasing the frequency of cargo services to North America. Chicago moved from seven to nine flights a week in March. Two more flights per week were added in April. In March, Vancouver moved from one to three flights a week and in April, Los Angeles moved from six to eight flights a week. In addition, we will introduce a twice weekly service to Calgary in Canada from October.

- As part of agreements made with The Boeing Company in December 2013, we are selling our six Boeing 747-400F freighters back to The Boeing Company. Four of these freighters are now parked and all six will have left the fleet by 2016. We now operate 13 highly fuel-efficient Boeing 747-8F freighters and have one more scheduled for delivery in 2016.

- Our new cargo terminal became fully operational in the last quarter of 2013. It is now operating smoothly and expects to handle 1.4 million tonnes of cargo in 2014. It began to handle cargo for airlines outside the Cathay Pacific Group in May.

- We expect our cargo business to be better in the second half of 2014 than it was in the first half. We are well placed to take advantage of any increase in demand. Despite current market conditions we remain confident about the long-term prospects of our airfreight business and Hong Kong's future as an international air cargo hub.

ASIA MILES

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

- Asia Miles has over 500 partners in nine categories, including airlines, finance and insurance, hotels, dining and retail. There are 25 airline partners, which together fly to over 1,000 destinations.

- There was an 11% increase in redemptions by Asia Miles members in the first half of 2014 compared to the same period of last year. More than 90% of Cathay Pacific and Dragonair flights carry passengers who have redeemed frequent flyer miles through the Asia Miles programme.

ANTITRUST PROCEEDINGS

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances in line with the accounting policy 20 set out on page 101 in the 2013 Annual Report.

Financial Review

TURNOVER

	Group		Cathay Pacific and Dragonair	
	Six months ended 30th June		Six months ended 30th June	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Passenger services	**36,520**	34,978	**36,520**	34,978
Cargo services	**11,663**	11,278	**10,028**	9,625
Catering, recoveries and other services	**2,657**	2,328	**2,346**	2,038
Total turnover	**50,840**	48,584	**48,894**	46,641

- Group passenger turnover increased 4.4% against a 5.3% increase in capacity. The increased turnover principally reflected an improvement in revenue management.
- Group cargo turnover increased by 3.4%. Combined Cathay Pacific and Dragonair cargo turnover increased by 4.2% against a 10.8% increase in capacity.
- Group turnover from catering, recoveries and other services increased by 14.1%.

OPERATING EXPENSES

	Group			Cathay Pacific and Dragonair		
	Six months ended 30th June			Six months ended 30th June		
	2014 HK$M	2013 HK$M	**Change**	**2014 HK$M**	2013 HK$M	**Change**
Staff	**8,899**	8,432	**+5.5%**	**7,976**	7,590	**+5.1%**
Inflight service and passenger expenses	**2,162**	1,986	**+8.9%**	**2,162**	1,986	**+8.9%**
Landing, parking and route expenses	**6,944**	6,668	**+4.1%**	**6,830**	6,563	**+4.1%**
Fuel, net of hedging gains	**18,930**	18,674	**+1.4%**	**18,504**	18,245	**+1.4%**
Aircraft maintenance	**3,664**	3,861	**-5.1%**	**3,545**	3,703	**-4.3%**
Aircraft depreciation and operating leases	**5,049**	4,565	**+10.6%**	**4,934**	4,448	**+10.9%**
Other depreciation, amortisation and operating leases	**1,039**	889	**+16.9%**	**736**	632	**+16.5%**
Commissions	**401**	386	**+3.9%**	**401**	386	**+3.9%**
Others	**2,176**	2,088	**+4.2%**	**2,660**	2,118	**+25.6%**
Operating expenses	**49,264**	47,549	**+3.6%**	**47,748**	45,671	**+4.5%**
Net finance charges	**621**	542	**+14.6%**	**599**	518	**+15.6%**
Total operating expenses	**49,885**	48,091	**+3.7%**	**48,347**	46,189	**+4.7%**

- The Group's total operating expenses increased by 3.7% to HK$49,885 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.69 to HK$3.57.

CATHAY PACIFIC AND DRAGONAIR OPERATING RESULTS ANALYSIS

	Six months ended 30th June	
	2014 HK$M	2013 HK$M
Airlines' profit before taxation	**547**	452
Taxation	**(148)**	(171)
Airlines' profit after taxation	**399**	281
Share of losses from subsidiaries and associates	**(52)**	(257)
Profit attributable to the shareholders of Cathay Pacific	**347**	24

The changes in the interim airlines' profit before taxation can be analysed as follows:

	HK$M	
2013 interim airlines' profit before taxation	**452**	
Turnover	**2,253**	– Passenger turnover increased due to a 2.3% point increase in load factor and a 5.3% increase in capacity offset by a 3.5% decrease in yield. – Cargo turnover increased due to a 0.8% point increase in load factor and a 10.8% increase in capacity offset by a 6.9% decrease in yield.
Fuel, net of hedging gains	**(259)**	– Fuel costs increased primarily due to a 6.2% increase in consumption.
Landing, parking and route expenses	**(267)**	– Increased mainly due to an increase in flight frequencies.
Aircraft maintenance	**158**	– Decreased mainly due to retirement of older aircraft resulting in reduced requirement for maintenance.
Depreciation, amortisation and operating leases	**(590)**	– Increased mainly due to the accelerated retirement of Airbus A340-300 aircraft and the addition of new aircraft.
Staff	**(386)**	– Increased mainly due to increases in headcount and salaries.
Inflight service, commission, net finance charges and others	**(814)**	– Increased mainly due to the increase in inflight service and passenger expenses and provision for impairment of fixed assets.
2014 interim airlines' profit before taxation	**547**	

FUEL EXPENDITURE AND HEDGING

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

	Six months ended 30th June	
	2014 HK$M	2013 HK$M
Gross fuel cost	**19,954**	18,974
Fuel hedging gains	**(1,024)**	(300)
Net fuel cost	**18,930**	18,674

FINANCIAL POSITION

- Additions to fixed assets were HK$5,495 million, comprising HK$5,219 million for aircraft and related equipment and HK$276 million for other equipment and buildings.
- Borrowings decreased by 8.0% to HK$61,689 million. These are fully repayable by 2026 and are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, with 63% at fixed rates of interest after taking into account the effect of related derivatives.
- Liquid funds, 74.0% of which are denominated in United States dollars, decreased by 27.0% to HK$20,241 million.
- Net borrowings increased by 5.4% to HK$41,448 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 3.3% to HK$60,830 million. The net debt/equity ratio increased to 0.68 times from 0.63 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 2013 Annual Report.

TO THE BOARD OF DIRECTORS OF CATHAY PACIFIC AIRWAYS LIMITED
(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)

INTRODUCTION

We have reviewed the interim financial report set out on pages 24 to 42 which comprises the consolidated statement of financial position of Cathay Pacific Airways Limited (the "Company") and its subsidiaries (together the "Group") as of 30th June 2014 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June 2014 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
13th August 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30th June 2014 – Unaudited

	Note	**2014 HK$M**	2013 HK$M	**2014 US$M**	2013 US$M
Turnover					
Passenger services		**36,520**	34,978	**4,682**	4,484
Cargo services		**11,663**	11,278	**1,495**	1,446
Catering, recoveries and other services		**2,657**	2,328	**341**	299
Total turnover	*3*	**50,840**	48,584	**6,518**	6,229
Expenses					
Staff		**(8,899)**	(8,432)	**(1,141)**	(1,081)
Inflight service and passenger expenses		**(2,162)**	(1,986)	**(277)**	(255)
Landing, parking and route expenses		**(6,944)**	(6,668)	**(890)**	(855)
Fuel, net of hedging gains		**(18,930)**	(18,674)	**(2,427)**	(2,394)
Aircraft maintenance		**(3,664)**	(3,861)	**(470)**	(495)
Aircraft depreciation and operating leases		**(5,049)**	(4,565)	**(647)**	(585)
Other depreciation, amortisation and operating leases		**(1,039)**	(889)	**(133)**	(114)
Commissions		**(401)**	(386)	**(52)**	(49)
Others		**(2,176)**	(2,088)	**(279)**	(268)
Operating expenses		**(49,264)**	(47,549)	**(6,316)**	(6,096)
Operating profit	*5*	**1,576**	1,035	**202**	133
Finance charges		**(896)**	(658)	**(115)**	(85)
Finance income		**275**	116	**35**	15
Net finance charges	*6*	**(621)**	(542)	**(80)**	(70)
Share of losses of associates		**(265)**	(155)	**(34)**	(20)
Profit before taxation		**690**	338	**88**	43
Taxation	*7*	**(196)**	(173)	**(25)**	(22)
Profit for the period		**494**	165	**63**	21
Non-controlling interests		**(147)**	(141)	**(19)**	(18)
Profit attributable to the shareholders of Cathay Pacific		**347**	24	**44**	3
Profit for the period		**494**	165	**63**	21
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**(1,287)**	1,806	**(165)**	232
Revaluation of available-for-sale financial assets		**(18)**	26	**(2)**	3
Share of other comprehensive income of associates		**45**	137	**6**	17
Exchange differences on translation of foreign operations		**(516)**	225	**(66)**	29
Other comprehensive income for the period, net of taxation	*8*	**(1,776)**	2,194	**(227)**	281
Total comprehensive income for the period		**(1,282)**	2,359	**(164)**	302
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**(1,429)**	2,218	**(183)**	284
Non-controlling interests		**147**	141	**19**	18
		(1,282)	2,359	**(164)**	302
Earnings per share (basic and diluted)	*9*	**8.8¢**	0.6¢	**1.1¢**	0.1¢

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

The notes on pages 28 to 42 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30th June 2014 – Unaudited

	Note	30th June 2014 HK$M	31st December 2013 HK$M	30th June 2014 US$M	31st December 2013 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	11	**95,718**	94,935	**12,272**	12,171
Intangible assets	12	**9,916**	9,802	**1,271**	1,257
Investments in associates	13	**20,764**	20,314	**2,662**	2,604
Other long-term receivables and investments		**7,037**	7,135	**902**	915
Deferred tax assets		**296**	204	**38**	26
		133,731	132,390	**17,145**	16,973
Long-term liabilities		**(52,947)**	(57,460)	**(6,788)**	(7,366)
Related pledged security deposits		**521**	626	**67**	80
Net long-term liabilities	14	**(52,426)**	(56,834)	**(6,721)**	(7,286)
Other long-term payables	15	**(1,533)**	(1,318)	**(197)**	(169)
Deferred tax liabilities		**(9,589)**	(9,633)	**(1,229)**	(1,235)
		(63,548)	(67,785)	**(8,147)**	(8,690)
Net non-current assets		**70,183**	64,605	**8,998**	8,283
Current assets and liabilities					
Stock		**1,512**	1,511	**194**	194
Trade, other receivables and other assets	16	**10,657**	9,827	**1,366**	1,260
Assets held for sale	17	**102**	111	**13**	14
Liquid funds	18	**20,241**	27,736	**2,595**	3,556
		32,512	39,185	**4,168**	5,024
Current portion of long-term liabilities		**(9,626)**	(11,179)	**(1,234)**	(1,433)
Related pledged security deposits		**363**	961	**47**	123
Net current portion of long-term liabilities	14	**(9,263)**	(10,218)	**(1,187)**	(1,310)
Trade and other payables	19	**(18,106)**	(18,206)	**(2,321)**	(2,334)
Unearned transportation revenue		**(13,124)**	(11,237)	**(1,683)**	(1,441)
Taxation		**(1,224)**	(1,116)	**(157)**	(143)
		(41,717)	(40,777)	**(5,348)**	(5,228)
Net current liabilities		**(9,205)**	(1,592)	**(1,180)**	(204)
Total assets less current liabilities		**124,526**	130,798	**15,965**	16,769
Net assets		**60,978**	63,013	**7,818**	8,079
CAPITAL AND RESERVES					
Share capital: nominal value	20	–	787	–	101
Other statutory capital reserves	20	–	16,319	–	2,092
Share capital and other statutory capital reserves	20	**17,106**	17,106	**2,193**	2,193
Other reserves		**43,724**	45,782	**5,606**	5,870
Funds attributable to the shareholders of Cathay Pacific		**60,830**	62,888	**7,799**	8,063
Non-controlling interests		**148**	125	**19**	16
Total equity		**60,978**	63,013	**7,818**	8,079

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

The notes on pages 28 to 42 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30th June 2014 – Unaudited

	2014 HK$M	2013 HK$M	2014 US$M	2013 US$M
Operating activities				
Cash generated from operations	**6,294**	6,853	**807**	878
Interest received	**103**	76	**13**	10
Net interest paid	**(411)**	(390)	**(53)**	(50)
Tax paid	**(97)**	(219)	**(12)**	(28)
Net cash inflow from operating activities	**5,889**	6,320	**755**	810
Investing activities				
Net decrease/(increase) in liquid funds other than cash and cash equivalents	**3,444**	(3,411)	**442**	(438)
Proceeds from scrap/sales of fixed assets	**455**	888	**58**	114
Proceeds from sales of assets held for sale	**–**	657	**–**	84
Net decrease in other long-term receivables and investments	**10**	30	**1**	4
Purchases of shares in associates	**–**	(546)	**–**	(70)
Loans to associates	**(1,377)**	–	**(176)**	–
Dividends received from associates	**11**	12	**2**	2
Payments for fixed and intangible assets	**(5,762)**	(6,801)	**(739)**	(872)
Net cash outflow from investing activities	**(3,219)**	(9,171)	**(412)**	(1,176)
Financing activities				
New financing	**2,472**	3,974	**317**	509
Loan and finance lease repayments	**(8,326)**	(4,826)	**(1,067)**	(619)
Security deposits placed	**(21)**	(19)	**(3)**	(2)
Dividends paid – to the shareholders of Cathay Pacific	**(629)**	(315)	**(81)**	(40)
– to non-controlling interests	**(124)**	(132)	**(16)**	(17)
Net cash outflow from financing activities	**(6,628)**	(1,318)	**(850)**	(169)
Decrease in cash and cash equivalents	**(3,958)**	(4,169)	**(507)**	(535)
Cash and cash equivalents at 1st January	**12,359**	12,798	**1,584**	1,641
Effect of exchange differences	**(133)**	(30)	**(17)**	(4)
Cash and cash equivalents at 30th June	**8,268**	8,599	**1,060**	1,102

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

The notes on pages 28 to 42 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2014 – Unaudited

	Attributable to the shareholders of Cathay Pacific									
	Share capital HK$M	Share premium HK$M	Capital redemption reserve HK$M	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital reserve and others HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2014	**787**	**16,295**	**24**	**40,342**	**984**	**2,340**	**2,116**	**62,888**	**125**	**63,013**
Changes in equity for the six months ended 30th June 2014:										
Profit for the period	–	–	–	**347**	–	–	–	**347**	**147**	**494**
Other comprehensive income	–	–	–	–	**(18)**	**(1,287)**	**(471)**	**(1,776)**	–	**(1,776)**
Total comprehensive income for the period	–	–	–	**347**	**(18)**	**(1,287)**	**(471)**	**(1,429)**	**147**	**(1,282)**
2013 second interim dividend	–	–	–	**(629)**	–	–	–	**(629)**	–	**(629)**
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	**(124)**	**(124)**
Transfers (note 20)	**16,319**	**(16,295)**	**(24)**	–	–	–	–	–	–	–
At 30th June 2014	**17,106**	–	–	**40,060**	**966**	**1,053**	**1,645**	**60,830**	**148**	**60,978**
At 1st January 2013	787	16,295	24	38,363	931	(830)	1,616	57,186	120	57,306
Impact of changes in accounting policies	–	–	–	(1,085)	–	–	(80)	(1,165)	(3)	(1,168)
Restated balance at 1st January 2013	787	16,295	24	37,278	931	(830)	1,536	56,021	117	56,138
Changes in equity for the six months ended 30th June 2013:										
Profit for the period	–	–	–	24	–	–	–	24	141	165
Other comprehensive income	–	–	–	–	26	1,806	362	2,194	–	2,194
Total comprehensive income for the period	–	–	–	24	26	1,806	362	2,218	141	2,359
2012 interim dividend	–	–	–	(315)	–	–	–	(315)	–	(315)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(132)	(132)
At 30th June 2013	787	16,295	24	36,987	957	976	1,898	57,924	126	58,050

The notes on pages 28 to 42 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 13th August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements.

2. Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards ("HKFRS") and one new interpretation that are first effective for the current accounting period of the Group:

- Amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities"
- Amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"
- Amendments to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) "Investment Entities"
- HK (IFRIC) Interpretation 21 "Levies"

The adoption of the amendments and interpretation has had no significant impact on the results and financial position of the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Turnover

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

4. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M	**2014 HK$M**	2013 HK$M	**2014 HK$M**	2013 HK$M
Sales to external customers	**50,264**	48,025	**576**	559			**50,840**	48,584
Inter-segment sales	**4**	4	**1,750**	1,165			**1,754**	1,169
Segment revenue	**50,268**	48,029	**2,326**	1,724			**52,594**	49,753
Segment results	**1,585**	1,391	**(9)**	(356)			**1,576**	1,035
Net finance charges	**(615)**	(535)	**(6)**	(7)			**(621)**	(542)
	970	856	**(15)**	(363)			**955**	493
Share of losses of associates					**(265)**	(155)	**(265)**	(155)
Profit before taxation							**690**	338
Taxation	**(215)**	(235)	**19**	62			**(196)**	(173)
Profit for the period							**494**	165

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, aircraft ramp handling services and cargo terminal operations. The unallocated results represent the Group's share of losses of associates.

The major revenue earning asset is the aircraft fleet which is used both for passenger and cargo services. Management considers that there is no suitable basis for allocating such assets and related operating costs between the two segments. Accordingly, passenger and cargo services are not disclosed as separate business segments.

Inter-segment sales are based on prices set on an arm's length basis.

4. Segment information (continued)

(b) Geographical information

	Six months ended 30th June	
	2014 HK$M	2013 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**24,246**	22,499
– Japan, Korea and Taiwan	**5,293**	5,560
India, Middle East, Pakistan and Sri Lanka	**2,294**	2,506
Southwest Pacific and South Africa	**3,246**	3,284
Southeast Asia	**4,038**	3,927
Europe	**4,593**	4,301
North America	**7,130**	6,507
	50,840	48,584

India, Middle East, Pakistan and Sri Lanka includes the Indian sub-continent, the Maldives, the Middle East, Pakistan, Sri Lanka and Bangladesh. Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. Southeast Asia includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam and Cambodia. Europe includes continental Europe, the United Kingdom, Scandinavia, Russia, the Baltic states and Turkey. North America includes U.S.A., Canada and Latin America. A geographic analysis of segment results is not disclosed for the reasons set out in the 2013 Annual Report.

5. Operating profit

	Six months ended 30th June	
	2014 HK$M	2013 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**1,254**	1,231
– owned	**2,658**	2,237
Amortisation of intangible assets	**153**	73
Operating lease rentals		
– land and buildings	**493**	426
– aircraft and related equipment	**1,509**	1,471
– others	**21**	16
Provision for impairment of fixed assets	**347**	–
Provision for impairment of assets held for sale	**9**	12
(Gain)/loss on disposal of fixed assets, net	**(2)**	53
Cost of stock expensed	**965**	1,026
Exchange differences, net	**14**	236
Auditors' remuneration	**6**	5
Dividend income from unlisted investments	**(8)**	(7)

6. Net finance charges

	Six months ended 30th June	
	2014 HK$M	2013 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**405**	325
– interest income on related security deposits, notes and zero coupon bonds	**(20)**	(51)
	385	274
– bank loans and overdrafts		
– wholly repayable within five years	**71**	136
– not wholly repayable within five years	**101**	41
– other loans		
– wholly repayable within five years	**53**	34
– not wholly repayable within five years	**7**	25
– other long-term receivables	**(12)**	(13)
	605	497
(Income)/loss from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(48)**	11
– bank deposits and others	**(90)**	(63)
	(138)	(52)
Fair value change:		
– Loss/(gain) on obligations under finance leases designated as at fair value through profit or loss	**108**	(93)
– loss on financial derivatives	**46**	190
	154	97
	621	542

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

Included in fair value change in respect of financial derivatives are net gains from derivatives that are classified as held for trading of HK$71 million (2013: net losses of HK$67 million).

7. Taxation

	Six months ended 30th June	
	2014 HK$M	2013 HK$M
Current tax expenses		
– Hong Kong profits tax	**95**	77
– overseas tax	**98**	108
– over provision for prior years	**–**	(35)
Deferred tax		
– origination and reversal of temporary differences	**3**	23
	196	173

Hong Kong profits tax is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 22(d) to the financial statements).

8. Other comprehensive income

	Six months ended 30th June	
	2014 HK$M	2013 HK$M
Cash flow hedges		
– recognised during the period	**(853)**	2,113
– transferred to profit or loss	**(584)**	(92)
– deferred tax recognised	**150**	(215)
Revaluation of available-for-sale financial assets		
– recognised during the period	**(18)**	26
Share of other comprehensive income of associates		
– recognised during the period	**45**	126
– reclassified to profit or loss	**–**	11
Exchange differences on translation of foreign operations		
– recognised during the period	**(514)**	259
– reclassified to profit or loss	**(2)**	(34)
Other comprehensive income for the period	**(1,776)**	2,194

9. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$347 million (2013: HK$24 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2013: 3,934 million) shares.

10. Dividend

The Directors have declared a first interim dividend of HK$0.10 per share (2013: HK$0.06 per share) for the six months ended 30th June 2014. The interim dividend which totals HK$393 million (2013: HK$236 million) will be paid on 6th October 2014 to shareholders registered at the close of business on the record date, being Friday, 5th September 2014. Shares of the Company will be traded ex-dividend as from Wednesday, 3rd September 2014. This interim dividend has not been recognised as a liability at the reporting date.

The register of members will be closed on Friday, 5th September 2014, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 4th September 2014.

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 2014	**138,180**	**4,330**	**11,431**	**298**	**154,239**
Additions	**5,219**	**185**	**68**	**23**	**5,495**
Disposals	**(2,437)**	**(25)**	**–**	**–**	**(2,462)**
At 30th June 2014	**140,962**	**4,490**	**11,499**	**321**	**157,272**
Accumulated depreciation and impairment					
At 1st January 2014	**53,391**	**2,874**	**3,039**	**–**	**59,304**
Charge for the period	**3,541**	**146**	**225**	**–**	**3,912**
Disposals	**(1,984)**	**(25)**	**–**	**–**	**(2,009)**
Impairment	**347**	**–**	**–**	**–**	**347**
At 30th June 2014	**55,295**	**2,995**	**3,264**	**–**	**61,554**
Net book value					
At 30th June 2014	**85,667**	**1,495**	**8,235**	**321**	**95,718**
At 31st December 2013	84,789	1,456	8,392	298	94,935

Fixed assets at 30th June 2014 include leased assets of HK$39,877 million (31st December 2013: HK$43,238 million).

12. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2014	**7,666**	**2,938**	**214**	**10,818**
Additions	**–**	**267**	**–**	**267**
At 30th June 2014	**7,666**	**3,205**	**214**	**11,085**
Accumulated amortisation				
At 1st January 2014	**–**	**1,016**	**–**	**1,016**
Charge for the period	**–**	**153**	**–**	**153**
At 30th June 2014	**–**	**1,169**	**–**	**1,169**
Net book value				
At 30th June 2014	**7,666**	**2,036**	**214**	**9,916**
At 31st December 2013	7,666	1,922	214	9,802

13. Investments in associates

	30th June 2014 HK$M	31st December 2013 HK$M
Share of net assets		
– listed in Hong Kong	**14,282**	15,021
– unlisted	**945**	1,031
Goodwill	**4,063**	4,165
Loans due from associates	**1,474**	97
	20,764	20,314

14. Long-term liabilities

	30th June 2014		31st December 2013	
	Current HK$M	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	**5,360**	**22,469**	5,834	24,954
Obligations under finance leases	**3,903**	**29,957**	4,384	31,880
	9,263	**52,426**	10,218	56,834

15. Other long-term payables

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

16. Trade, other receivables and other assets

	30th June 2014 HK$M	31st December 2013 HK$M
Trade debtors	**5,902**	5,421
Derivative financial assets – current portion	**1,779**	2,022
Other receivables and prepayments	**2,909**	2,314
Due from associates and other related companies	**67**	70
	10,657	9,827

	30th June 2014 HK$M	31st December 2013 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,802**	5,319
One to three months overdue	**85**	86
More than three months overdue	**15**	16
	5,902	5,421

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

17. Assets held for sale

	30th June 2014 HK$M	31st December 2013 HK$M
Assets held for sale	**102**	111
	102	111

18. Liquid funds

	30th June 2014 HK$M	31st December 2013 HK$M
Short-term deposits and bank balances	**8,268**	12,359
Short-term deposits maturing beyond three months when placed	**3,304**	6,349
Funds with investment managers		
– debt securities listed outside Hong Kong	**6,978**	7,282
– bank deposits	**20**	32
Other liquid investments		
– debt securities listed outside Hong Kong	**1,446**	1,439
– bank deposits	**225**	275
	20,241	27,736

Included in other liquid investments are bank deposits of HK$225 million (31st December 2013: HK$275 million) and debt securities of HK$405 million (31st December 2013: HK$1,433 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

19. Trade and other payables

	30th June 2014 HK$M	31st December 2013 HK$M
Trade creditors	**7,458**	7,601
Derivative financial liabilities – current portion	**839**	799
Other payables	**9,409**	9,331
Due to associates	**183**	166
Due to other related companies	**217**	309
	18,106	18,206

	30th June 2014 HK$M	31st December 2013 HK$M
Analysis of trade creditors by age:		
Current	**7,189**	7,408
One to three months overdue	**249**	174
More than three months overdue	**20**	19
	7,458	7,601

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

20. Share capital

During the period under review, the Group did not purchase, sell or redeem any of its shares (2013: nil). At 30th June 2014, 3,933,844,572 shares were in issue (31st December 2013: 3,933,844,572 shares). Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3rd March 2014, the concepts of "authorised share capital" and "par value" no longer exist. In accordance with Section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have nominal value with effect from 3rd March 2014. In accordance with the transitional provisions set out in Section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) on 3rd March 2014, any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

21. Related party transactions

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

	Six months ended 30th June 2014		Six months ended 30th June 2013	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Turnover	**106**	**6**	99	6
Aircraft maintenance costs	**515**	**1,129**	63	1,280
Operating costs	**291**	**196**	218	103
Dividend income	**196**	**–**	243	–
Sale of fixed assets	**–**	**–**	206	–

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

22. Capital commitments and contingencies

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

	30th June 2014 HK$M	31st December 2013 HK$M
Authorised and contracted for	**108,387**	113,307
Authorised but not contracted for	**15,567**	15,897
	123,954	129,204

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

	30th June 2014 HK$M	31st December 2013 HK$M
Associates	**2,626**	753
Related parties	**1,082**	1,064
Staff	**200**	200
	3,908	2,017

Related parties are companies under control of a company which has significant influence over the Group.

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

(d) The Company operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected outcomes of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.

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

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, the Company and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57,120,000 (equivalent to HK$618 million at the exchange rate current as of the date of the announcement) on the Company. In January 2011, the Company filed an appeal with the General Court of the European Union. The appeal is currently pending.

22. Capital commitments and contingencies (continued)

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, the United Kingdom, the Netherlands and Norway 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 these actions, except as noted below.

The Company is a defendant in various putative class action cases filed in the United States, in which the plaintiffs allege the Company and other carriers that provide air cargo services fixed the prices of various air cargo charges and surcharges in violation of United States federal and state antitrust laws, and certain foreign competition laws. Those cases were consolidated into one case for all pre-trial purposes, In re Air Cargo Shipping Services Antitrust Litigation, MDL No. 1775, EDNY. Damages were demanded, but the amounts were not specified. The Company reached an agreement to settle this matter in February 2014, by paying the plaintiffs US$65 million (approximately HK$504 million at the exchange rate current at date of payment). The settlement, which is subject to Court approval, will resolve claims against all putative class members who choose not to opt out of the agreement.

The Company was a respondent (together with a number of other airlines) in an Australian civil antitrust class action in respect of its cargo operations. The Company, together with other airlines, settled the Australian civil cargo antitrust class action in which it is a respondent. Under the terms of settlement, which was approved by the Federal Court of Australia in June 2014, the Company has made a payment to settle this litigation without any admission of liability or wrongdoing whatsoever. Any settlement amounts payable by individual airlines under the terms of settlement are to remain confidential. The amount payable by the Company is not material to its financial position. An amount sufficient to cover the amount payable by the Company was provided in the accounts of the Company before 2014.

The Company is a defendant in various putative class action cases filed in the United States, in which the plaintiffs allege the Company and other carriers fixed certain elements of the price charged for passenger air transportation services in violation of United States antitrust laws. Those cases were consolidated into one case for all pre-trial purposes, In re Transpacific Passenger Air Transportation Antitrust Litigation, MDL No. 1913, N.D. Cal. Damages were demanded, but the amounts were not specified. The Company reached an agreement to settle this matter in July 2014 by paying the plaintiffs US$7.5 million (approximately HK$58.1 million at the exchange rate current at date of payment). The settlement, which is subject to Court approval, will resolve claims against all putative class members who choose not to opt out of the agreement.

22. Capital commitments and contingencies (continued)

The proceedings and civil actions, except as otherwise stated above, are ongoing and the outcomes are subject to uncertainties. The Company is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with the accounting policy 20 set out on page 101 in the 2013 Annual Report.

23. Financial risk management

(a) Fair values

The fair values of the following financial instruments differ from their carrying amounts shown in the statement of financial position:

	30th June 2014		31st December 2013	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Loans receivable	**632**	**688**	663	719
Long-term loans	**(27,829)**	**(29,091)**	(30,788)	(32,089)
Obligations under finance leases	**(34,744)**	**(36,007)**	(37,851)	(39,354)
Pledged security deposits	**884**	**1,025**	1,587	1,839

(b) Financial instrument carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 30th June 2014 across three levels of the fair value hierarchy defined in HKFRS 13 "Fair Value Measurement" with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using only unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using input other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value has been determined based on quotes from market makers or alternative market participants supported by observable inputs. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using dividend discount model and discounted cash flow valuation techniques in which any significant input is not based on observable market data. Unobservable inputs are inputs for which market data are not available.

23. Financial risk management (continued)

	30th June 2014			
	Level 1 HK$M	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**
Recurring fair value measurement				
Assets				
Investments at fair value				
– listed	**241**	**–**	**–**	**241**
– unlisted	**–**	**–**	**1,085**	**1,085**
Liquid funds				
– funds with investment managers	**–**	**6,978**	**–**	**6,978**
– other liquid investments	**–**	**1,446**	**–**	**1,446**
Derivative financial assets	**–**	**4,936**	**–**	**4,936**
	241	**13,360**	**1,085**	**14,686**
Liabilities				
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(3,483)**	**–**	**(3,483)**
Derivative financial liabilities	**–**	**(1,273)**	**–**	**(1,273)**
	–	**(4,756)**	**–**	**(4,756)**

	31st December 2013			
	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement				
Assets				
Investments at fair value				
– listed	259	–	–	259
– unlisted	–	–	1,085	1,085
Liquid funds				
– funds with investment managers	–	7,282	–	7,282
– other liquid investments	–	1,439	–	1,439
Derivative financial assets	–	5,228	–	5,228
	259	13,949	1,085	15,293
Liabilities				
Obligations under finance leases designated as at fair value through profit or loss	–	(3,587)	–	(3,587)
Derivative financial liabilities	–	(1,076)	–	(1,076)
	–	(4,663)	–	(4,663)

23. Financial risk management (continued)

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

The fair value of the unlisted investments in Level 3 is determined using a discounted cash flow valuation technique. The significant unobservable input used in the fair value measurement is the discount rate and growth rate. Information about fair value measurements using significant unobservable inputs (Level 3):

Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Positive/(negative) impact on valuation (HK$M)
Unlisted investment				
– Discount rate	8.0%	The higher the discount rate, the lower the fair value	+/- 0.5%	(79)/102
– Growth rate	4.1%	The higher the future growth rate, the higher the fair value	+/- 0.1%	17/(16)

There was no movement in the balance of Level 3 fair value measurements during the period ended 30th June 2014 (2013: nil).

Information Provided in Accordance with the Listing Rules

CORPORATE GOVERNANCE

The Company complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the interim report with the following exceptions which it believes do not benefit shareholders:

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

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

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

The 2014 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

DIRECTORS' PARTICULARS

Changes in the particulars of the Directors are set out as follows:

1. John Slosar was appointed as a Non-Executive Director of The Hongkong and Shanghai Banking Corporation Limited with effect from 12th May 2014. He was also appointed as a Non-Executive Director of Air China Limited with effect from the conclusion of its annual general meeting held on 22nd May 2014.

2. James W.J. Hughes-Hallett retired as an Independent Non-Executive Director of HSBC Holdings plc with effect from the conclusion of its annual general meeting held on 23rd May 2014.

3. Irene Lee was appointed as an Independent Non-Executive Director of Hang Seng Bank Limited with effect from 12th May 2014.

4. Jack So was appointed as an Independent Non-Executive Director of China Resources Power Holdings Company Limited with effect from 11th June 2014. He has also been appointed as Chairman of the Airport Authority Hong Kong with effect from 1st June 2015 and will resign as an Independent Non-Executive Director of the Company prior to taking up this appointment.

5. Song Zhiyong was appointed as an Executive Director of Air China Limited with effect from the conclusion of its annual general meeting held on 22nd May 2014.

DIRECTORS' INTERESTS

At 30th June 2014, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following beneficial interest in the shares of Cathay Pacific Airways Limited:

	Capacity	No. of shares	Percentage of issued capital (%)
Ian Shiu	Personal	1,000	0.00003

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

SUBSTANTIAL SHAREHOLDERS

The register of interests in shares maintained under Section 336 of the SFO shows that at 30th June 2014, the Company had been notified of the following interests in the Company's shares:

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

Note: At 30th June 2014:

(a) Under Section 317 of the SFO, each of Air China, China National Aviation Company Limited ("CNAC") and Swire Pacific, being a party to the Shareholders' Agreement in relation to the Company dated 8th June 2006, was deemed to be interested in a total of 2,949,997,987 shares of the Company, comprising:

(i) 1,770,238,000 shares directly held by Swire Pacific;

(ii) 1,179,759,987 shares indirectly held by Air China and its subsidiaries CNAC, Super Supreme Company Limited and Total Transform Group Limited, comprising the following shares held by their wholly owned subsidiaries: 288,596,335 shares held by Angel Paradise Ltd., 280,078,680 shares held by Custain Limited, 191,922,273 shares held by Easerich Investments Inc., 189,976,645 shares held by Grand Link Investments Holdings Ltd., 207,376,655 shares held by Motive Link Holdings Inc. and 21,809,399 shares held by Perfect Match Assets Holdings Ltd.

(b) China National Aviation Holding Company is deemed to be interested in a total of 2,949,997,987 shares of the Company, in which its subsidiary Air China is deemed interested.

(c) John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 48.10% of the issued capital and approximately 60.63% of the voting rights.

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

www.cathaypacific.com

SWIRE