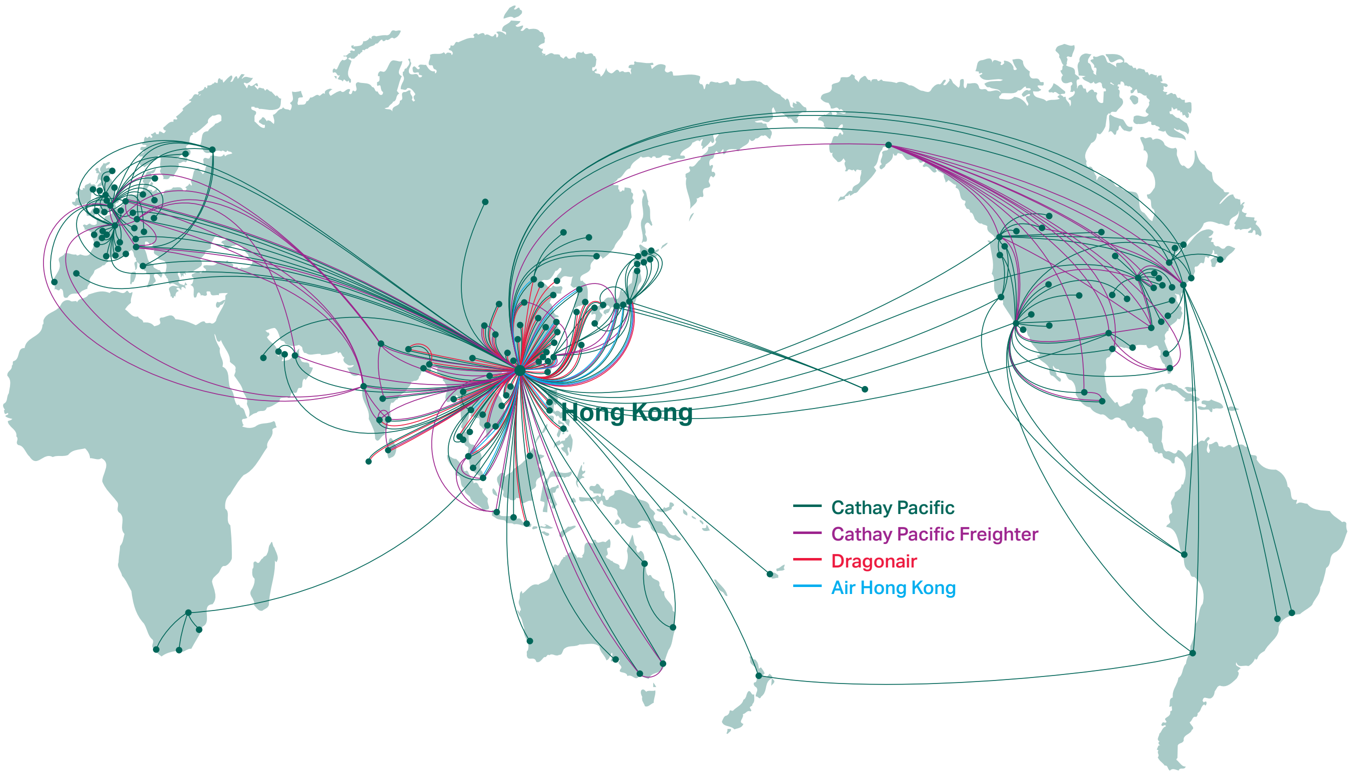

CONTENTS

CORPORATE INFORMATION

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

INVESTOR RELATIONS

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Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 180 destinations in 44 countries and territories.

The airline was founded in Hong Kong in 1946 and will celebrate its 70th anniversary on 24th September 2016. It has been deeply committed to its home base over the last seven decades, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres.

The Cathay Pacific Group operated 200 aircraft at 30th June 2016. Cathay Pacific itself had 145 aircraft at that date. Its other 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. At 30th June 2016 it had 69 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 42 aircraft on scheduled services to 53 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 33,700 people worldwide, of whom around 26,000 are employed in Hong Kong. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **one**world global alliance, whose combined network serves more than 1,000 destinations worldwide. Dragonair is an affiliate member of **one**world.

Financial and Operating Highlights

GROUP FINANCIAL STATISTICS

		2016	2015	
		Six months ended 30th June		Change
Results				
Revenue	*HK$ million*	**45,683**	50,388	**-9.3%**
Profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**353**	1,972	**-82.1%**
Earnings per share	*HK cents*	**9.0**	50.1	**-82.0%**
Dividend per share	*HK$*	**0.05**	0.26	**-80.8%**
Profit margin	*%*	**0.8**	3.9	**-3.1%pt**
		30th June	31st December	
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**50,664**	47,927	**+5.7%**
Net borrowings	*HK$ million*	**41,938**	42,458	**-1.2%**
Shareholders' funds per share	*HK$*	**12.9**	12.2	**+5.7%**
Net debt/equity ratio	*Times*	**0.83**	0.89	**-0.06 times**

OPERATING STATISTICS – CATHAY PACIFIC AND DRAGONAIR

		2016	2015	
		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	*Million*	**14,929**	14,598	**+2.3%**
Available seat kilometres ("ASK")	*Million*	**72,647**	69,689	**+4.2%**
Revenue passengers carried	*'000*	**17,249**	16,800	**+2.7%**
Passenger load factor	*%*	**84.5**	85.9	**-1.4%pt**
Passenger yield	*HK cents*	**54.3**	60.4	**-10.1%**
Cargo and mail carried	*'000 tonnes*	**866**	868	**-0.2%**
Cargo and mail load factor	*%*	**62.2**	64.1	**-1.9%pt**
Cargo and mail yield	*HK$*	**1.59**	1.93	**-17.6%**
Cost per ATK (with fuel)	*HK$*	**2.98**	3.24	**-8.0%**
Cost per ATK (without fuel)	*HK$*	**2.11**	2.12	**-0.5%**
Aircraft utilisation	*Hours per day*	**12.1**	12.2	**-0.8%**
On-time performance	*%*	**71.4**	65.8	**+5.6%pt**

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$353 million for the first six months of 2016. This compares to a profit of HK$1,972 million for the same period in 2015. Earnings per share were HK9.0 cents compared to HK50.1 cents for the first six months of the previous year. The operating environment in the first half of 2016 was affected by economic fragility and intense competition. There was sustained pressure on revenues, reflecting suspension of fuel surcharges, weak currencies in some markets, weak premium class demand, particularly on long-haul routes, and a higher proportion of passengers transiting through Hong Kong. All these factors impacted the Group's operating performance. The contribution from subsidiary and associated companies increased.

The Group's passenger revenue in the first six months of 2016 was HK$33,413 million, a decrease of 7.8% compared to the same period in 2015. Capacity increased by 4.2%, reflecting the introduction of new routes and increased frequencies on other routes. Load factor decreased by 1.4 percentage points, to 84.5%. Revenue was adversely affected by the suspension (from February) of fuel surcharges, which remained suspended for the rest of the period despite a subsequent rise in fuel prices. Yield fell by 10.1% to HK54.3 cents, reflecting the suspension of fuel surcharges, strong competition and adverse currency movements. There was a significant reduction in premium corporate travel, particularly on long-haul routes. Revenue from long-haul routes declined compared to the same period in 2015, despite a 4.7% increase in long-haul capacity.

The Group's cargo revenue in the first six months of 2016 was HK$9,415 million, a decrease of 17.2% compared to the same period in 2015. The cargo capacity of Cathay Pacific and Dragonair increased by 0.6%. The load factor decreased by 1.9 percentage points, to 62.2%. Tonnage carried decreased by 0.2%. The overall market was weak during the period, although tonnage stabilised in the second quarter. Yield fell by 17.6% to HK$1.59, reflecting strong competition, overcapacity and the suspension (from April) of fuel surcharges. Demand on European routes continued to be weak and demand on transpacific routes weakened. India was one of the few routes where demand strengthened. We managed freighter capacity in line with demand and carried a higher percentage of cargo in the bellies of our passenger aircraft.

Total fuel costs for Cathay Pacific and Dragonair (before the effect of fuel hedging) decreased by HK$4,023 million (or 31.9%) compared with the first half of 2015, despite a rise in the price of fuel in the second quarter. A 33.3% decrease in average prices was partially offset by a 2.0% increase in consumption. Fuel remains the Group's most significant cost, accounting for 29.1% of operating costs in the first half of 2016 (compared to 34.2% in the same period in 2015). Lower fuel prices were partially offset by fuel hedging losses. After taking hedging losses into account, fuel costs decreased by HK$3,360 million (or 20.2%) compared with the first half of 2015.

Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region continued to impose costs on the Group. We are doing more to improve the reliability of our operations.

Productivity improvements kept the increase in non-fuel costs in the first half of 2016 below the increase in capacity. There was a 0.5% reduction in non-fuel costs per available tonne kilometre. In response to weak revenues, we introduced measures intended to reduce non-operational costs. We are reviewing productivity and expenditure, we have stopped hiring and replacement of non-operationally critical staff, and we are restricting non-essential discretionary spending. Despite these short-term measures, we continue to make long-term investments.

We introduced a passenger service to Madrid in June. This service has been well received. We will introduce passenger services to London Gatwick in September, using new Airbus A350-900XWB aircraft. We stopped operating flights to Doha in February. We still offer codeshare services with Qatar Airways on this route. Dragonair did not introduce any new routes in the first half of 2016. Frequencies on Dragonair's Da Nang, Penang, Wenzhou and Wuhan services were increased. Frequencies on Dragonair's Clark and Kota Kinabalu services were reduced. There were no changes to our freighter network in the first half of 2016. We will introduce a freighter service to Portland in November. We continued to manage freighter capacity in line with demand.

We took delivery of our first Airbus A350-900XWB aircraft in May. Our second was delivered in July and our third in August. We are scheduled to take delivery of further nine aircraft of this type during the remainder of 2016. The Airbus A350-900XWBs are fuel efficient and have the right range, capacity and operating economics for our requirements. We retired two Airbus A340-300 aircraft in the first half of 2016. We will retire one more aircraft of this type in the second half of this year and will retire the remaining four aircraft of this type in 2017. We will have retired our three remaining Boeing 747-400 passenger aircraft by October. One parked Boeing 747-400F freighter aircraft was delivered to Boeing in July and another aircraft of this type in August. The remaining two aircraft of this type will be delivered to Boeing in August and September. We took delivery of our final Boeing 747-8F freighter in August.

The new Airbus A350-900XWB aircraft have our latest cabins, seats and entertainment systems and inflight connectivity for passengers' mobile devices. We opened a new lounge in Vancouver in May and reopened the business class lounge at The Pier at Hong Kong International Airport in June. The G16 lounge in Hong Kong closed for renovations in July and will reopen in the second quarter of 2017. Our new first and business class lounge at London Heathrow will open in the third quarter of 2016.

In January we announced that Dragonair is to be rebranded as Cathay Dragon, bringing the brands of our two airlines into closer alignment. The first aircraft with the Cathay Dragon livery went into service in April.

PROSPECTS

We expect the operating environment in the second half of the year to continue to be impacted by the same adverse factors as in the first half. The overall business outlook therefore remains challenging. We expect passenger yield to remain under pressure. Overcapacity and economic fragility will dampen cargo demand. Fuel prices have increased this year, but are still lower than in previous periods. The benefits from lower fuel prices will continue to be partially offset by losses on our fuel hedging contracts. The fuel surcharge remains suspended. In this difficult environment, we will manage capacity and strive to make further improvements in operational efficiency. We will also continue to be vigilant on costs.

The strategic objective of the Cathay Pacific Group is to provide sustainable growth in shareholder value over the long term. To that end we will continue to build a modern and fuel-efficient fleet and to strengthen our network and will strive to provide a high standard of customer service. We will continue to develop our strategic relationship with Air China. As we celebrate our 70th anniversary, our commitment to Hong Kong and its people remains unwavering. We will continue to make long-term strategic investments to develop and strengthen Hong Kong’s position as Asia’s premier aviation hub.

John Slosar
Chairman
Hong Kong, 17th August 2016

The operating environment in the first half of 2016 was affected by economic fragility and intense competition. There was sustained pressure on revenues, reflecting suspension of fuel surcharges, weak currencies in some markets, weak premium class demand, particularly on long-haul routes, and a higher proportion of passengers transiting through Hong Kong. All these factors impacted the Group's operating performance. The contribution from subsidiary and associated companies increased. In response to weak revenues, we introduced measures intended to reduce non-operational costs. We introduced passenger services to Madrid. We took delivery of our first Airbus A350-900XWB aircraft. We opened a new lounge in Vancouver and reopened the business class lounge at The Pier at Hong Kong International Airport. We announced that Dragonair is to be rebranded as Cathay Dragon.

AWARD-WINNING PRODUCTS AND SERVICES

- We took delivery of our first Airbus A350-900XWB aircraft in May. Our second was delivered in July and our third in August. We are scheduled to take delivery of further nine aircraft of this type during the remainder of 2016 and will have 22 aircraft of this type in service by the end of 2017. They have our latest cabins, seats and entertainment systems and inflight connectivity for passengers' mobile devices.

- We will start to take delivery of Airbus A350-1000 aircraft (which have longer range and more capacity than Airbus A350-900XWB aircraft) in 2018 and expect to have 26 aircraft of this type in service by the end of 2020.

- Airbus A350 aircraft are fuel efficient and have the right range, capacity and operating economics for our requirements.

- The business class seats in the Airbus A350-900XWB have better beds, more storage space, larger televisions and simpler seat controls than the business class seats in our existing aircraft.

- The premium economy class seats in the Airbus A350-900XWB have better storage space and leg rests and larger tables than the premium economy class seats in our existing aircraft. They also have personal reading lights and tablet holders.

- The economy class seats in the Airbus A350-900XWB have new headrests and tablet holders, and have larger televisions than the economy class seats in our existing aircraft.

- We opened a new first and business class lounge in Vancouver in May. The design follows that of the recently opened lounges in Bangkok, Haneda, Manila and Taipei.

- We reopened a refurbished business class lounge at The Pier at Hong Kong International Airport in June. This is our largest lounge. It can accommodate 550 passengers.

- We will open a new first class and business class lounge at London Heathrow in the third quarter of 2016.

- The G16 lounge at Hong Kong International Airport closed for renovations in July. It is scheduled to reopen in the second quarter of 2017.

HUB DEVELOPMENT

- Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region continued to impose costs on the Group. We are doing more to improve the reliability of our operations. In the first half of 2016, our on-time performance improved compared to the same period in 2015.
- The only long-term solution to the congestion at Hong Kong International Airport is a third runway. We support its construction in the shortest possible time.
- In the first half of 2016, the passenger capacity of Cathay Pacific and Dragonair increased by 4.2%, reflecting the introduction of new routes in the second half of 2015, the introduction of the Madrid route in June 2016 and increases in frequency on some existing routes. The increase was smaller than planned because of operational constraints and weak demand.
- We managed passenger capacity in line with demand by cancelling flights, but without affecting the integrity of our networks.
- We introduced a passenger service to Madrid in June. This service has been well received. We will introduce passenger services to London Gatwick in September, using new Airbus A350-900XWB aircraft.
- We stopped operating flights to Doha in February. We still offer codeshare services with Qatar Airways on this route.
- To meet seasonal demand, we added one flight per week to Sapporo between March and June, and one flight per week to Boston from May to August.
- Cathay Pacific announced to stop operating to Kuala Lumpur in early 2017. Dragonair will operate this four-times-daily service instead.
- Dragonair did not introduce any new routes in the first half of 2016. Frequencies on Dragonair's Da Nang, Penang, Wenzhou and Wuhan services were increased. Frequencies on Dragonair's Clark and Kota Kinabalu services were reduced.
- There were no changes to our freighter network in the first half of 2016. We continued to manage freighter capacity in line with demand.
- We will introduce a freighter service to Portland in November.

FLEET DEVELOPMENT

- At 30th June 2016, Cathay Pacific operated 145 aircraft, Dragonair operated 42 aircraft and Air Hong Kong operated 13 aircraft (a total of 200 aircraft for the Group). There are 69 new aircraft on order for delivery up to 2024. We will take delivery of five used Boeing 777-300 aircraft starting in 2018.
- We took delivery of our first Airbus A350-900XWB aircraft in May. Our second was delivered in July and our third in August. We are scheduled to take delivery of further nine aircraft of this type during the remainder of 2016 and will have 22 aircraft of this type in service by the end of 2017.
- We will start to take delivery of Airbus A350-1000 aircraft (which have longer range and more capacity than Airbus A350-900XWB aircraft) in 2018 and expect to have 26 aircraft of this type in service by the end of 2020.
- Airbus A350 aircraft are fuel efficient and have the right range, capacity and operating economics for our requirements.

- We retired two Airbus A340-300 aircraft in the first half of 2016. We will retire one more aircraft of this type in the second half of this year and will retire the remaining four aircraft of this type in 2017. We will have retired our three remaining Boeing 747-400 passenger aircraft by October.
- We managed our freighter capacity in line with demand, including by carrying a higher percentage of cargo in the bellies of our passenger aircraft.
- One parked Boeing 747-400F freighter aircraft was delivered to Boeing in July and another aircraft of this type in August. The remaining two aircraft of this type will be delivered to Boeing in August and September.
- We took delivery of our final Boeing 747-8F freighter in August.
- At 30th June 2016, we operated a fleet of 24 freighter aircraft. This will have been reduced to 21 by the end of the year.

ADVANCES IN TECHNOLOGY

- Self-service bag drop facilities have been introduced in Hong Kong and Amsterdam. Kiosk bag tagging facilities have been introduced in Los Angeles, San Francisco, Singapore and Vancouver. These facilities will be extended to other airports later this year and in 2017.
- We added to the capabilities of our cabin crew's tablet devices. Passengers are able to enroll into the Asia Miles programme via this platform.
- We introduced a new home screen for our website. Our website can now be used to book holidays, buy tickets for events and get discounts when booking travel packages.
- Our travel retail platform has been extended to Indonesia, Japan and Taiwan.

PARTNERSHIPS

- In February, Cathay Pacific stopped flying to Doha and ended its joint business arrangement with Qatar Airways. We still have codeshare arrangements with Qatar Airways.
- In April, Cathay Pacific ended its frequent flyer relationship with China Eastern Airlines.
- In August, Cathay Pacific and Dragonair entered into an air plus rail arrangement with SNCB Railway in Belgium on train services between Amsterdam and Brussels, and between Amsterdam and Antwerp.
- In May, we signed a joint business agreement with Lufthansa Cargo AG in relation to cargo routes between Hong Kong and Europe. The agreement will come into effect in the first quarter of 2017.

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 (the IATA Environment Committee, the Airlines Advisory Group on Global Market-Based Measures, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the

Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy 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.

- In compliance with the European Union's Emissions Trading Scheme, our 2015 emissions data from intra-EU flights were reported on by an external auditor in January and our emissions report was submitted to the UK Environment Agency in February. Cathay Pacific's greenhouse gas emissions data for 2015 were reported on by an external auditor.

- All our Airbus A350-900XWB aircraft are being flown on their delivery flights from Toulouse using fuel containing 10% biofuel.

- Since 2015, unopened food items from inbound flights to Hong Kong have been collected by Feeding Hong Kong, a non-profit organisation which provides surplus food to Hong Kong charities for distribution to people in need. More than 100 tonnes of surplus food were donated in the first half of 2016.

- In March, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all non-essential lighting in our buildings and on billboards.

- A photo competition called "Our Planet, Our Future" was held in June. Staff were encouraged to submit photos celebrating the environment.

- Our retiring Airbus A340 aircraft are being dealt with under PAMELA (Airbus' Process for Advanced Management of End-of-Life Aircraft). This enables old aircraft to be dismantled (and disposed of or recycled) in a sustainable manner.

- We share environmental best practice and experience with Air China.

- Cathay Pacific is a constituent of the FTSE4Good Index and the Hang Seng Corporate Sustainability Index. We responded to the Carbon Disclosure Project climate change and supply chain questionnaires.

- Our 2015 sustainable development report will be published in the third quarter of 2016 and will be available at www.cathaypacific.com/sdreport.

CONTRIBUTION TO THE COMMUNITY

- In January, Hong Kong SAR Chief Executive CY Leung was guest of honour on a community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300 aircraft was a special treat for some 250 residents from less-advantaged families in Hong Kong. Most of the participants had never flown before.

- Starting in March, 300 young people took part in this year's three month "I Can Fly" programme. They received training in aviation matters and participated in social service projects. Over 3,700 young people have participated in this programme since it started in 2003. A number of former participants now work for Cathay Pacific.

- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. 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$13.5 million, benefiting around 480 children.

- In July, a group of 11 Cathay Pacific staff travelled to Nepal as part of a "Change for Good" field trip organised by UNICEF. The aim was to give them a better understanding of how "Change for Good" donations are used to help improve the lives of disadvantaged children and their families.

- The Cathay Pacific Volunteers, made up of around 1,400 Cathay Pacific staff, help the local community in Hong Kong. Their "English on Air" programme has helped more than 2,400 students to improve their conversational English. They sort unused food and drinks from inbound flights to Hong Kong so as to give them to families in need.

- Starting in March, 40 participants took part in this year's Dragonair Aviation Certificate Programme, which is jointly organised with the Hong Kong Air Cadet Corps and the Scout Association of Hong Kong. Participants gain first-hand knowledge of the aviation industry and are mentored by Dragonair pilots. To date, more than 200 participants have graduated from the programme. Around 40% of the graduates have started aviation-related careers.

COMMITMENT TO STAFF

- At 30th June 2016, the Cathay Pacific Group employed more than 33,700 people worldwide. More than 26,000 of these people are based in Hong Kong. Cathay Pacific itself employs around 23,400 people worldwide. Dragonair employs around 3,300 people.

- Cathay Pacific recruited more than 270 staff in the first six months of 2016, including around 60 cabin crew and 120 pilots. Dragonair recruited around 60 cabin crew and eight pilots in the same period.

- In the first six months of 2016, 10 graduates (out of more than 500 applicants) joined our IT graduate trainee programme. Later in the year, we will recruit six young people for our graduate engineer programme. This programme started in 1985. A number of graduates are now in senior positions in the Group.

- Earlier this year, we introduced a careers website. It enables those inside and outside the Group to register interest and to search and apply for jobs.

- 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.

- We are reviewing productivity and expenditure, we have stopped hiring and replacement of non-operationally critical staff, and we are restricting non-essential discretionary spending.

- In May, Cathay Pacific launched "Work Well Done", an initiative focused on creating a culture of recognition across the Company by celebrating the everyday contributions of our colleagues. In 2016, the Betsy awards, which celebrate our frontline people who display exceptional customer service, will re-launch along with the new Niki awards, which will be introduced to celebrate the exceptional behind-the-scenes contributions from our people.

FLEET PROFILE*

Aircraft type	Number at 30th June 2016: Owned	Leased: Finance	Leased: Operating	Total	Firm orders: '16	Firm orders: '17	Firm orders: '18 and beyond	Firm orders: Total	Expiry of operating leases: '16	'17	'18	'19	'20	'21 and beyond	Options
Aircraft operated by Cathay Pacific:															
A330-300	23	13	6	**42**							3	1	2		
A340-300	4	1		**5**											
A350-900			1	**1**	11[(a)]	10		**21**						1	
A350-1000							26	**26**							
747-400	3			**3**											
747-400F	4			**4**[(b)]											
747-400BCF			1	**1**							1				
747-400ERF		6		**6**											
747-8F	2	11		**13**	1[(b)]			**1**							
777-200	5			**5**											
777-200F															5[(c)]
777-300	12			**12**			5[(d)]	**5**							
777-300ER	19	11	23	**53**						2	2			19	
777-9X							21[(b)]	**21**							
Total	72	42	31	**145**	12	10	52	**74**		2	6	1	2	20	5
Aircraft operated by Dragonair:															
A320-200	5		10	**15**							2	1	1	6	
A321-200	2		6	**8**									1	5	
A330-300	10		9[(e)]	**19**					3	4		2			
Total	17		25	**42**					3	4	2	3	2	11	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6	2	**10**							2				
747-400BCF			3[(e)]	**3**					1	2					
Total	2	6	5	**13**					1	2	2				
Grand total	**91**	**48**	**61**[(e)]	**200**	**12**	**10**	**52**	**74**[(d)]	**4**	**8**	**10**	**4**	**4**	**31**	**5**

* Includes parked aircraft. The table does not reflect aircraft movements after 30th June 2016.

(a) Including one aircraft on a 12-year operating lease which was delivered in July 2016 and another aircraft which was delivered in August 2016.

(b) 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. Three Boeing 777-300ER aircraft have been delivered to Cathay Pacific, one in April 2015, one in July 2015 and the third in September 2015. One Boeing 747-8F freighter was delivered to Cathay Pacific in August 2016. Four of the Boeing 747-400F freighters have been delivered to The Boeing Company, one in November 2014, one in July 2015, one in July 2016 (parked in January 2014) and the fourth one in August 2016. The remaining two Boeing 747-400F freighters will be delivered to The Boeing Company by the end of 2016.

(c) Purchase options in respect of five Boeing 777-200F freighters.

(d) At 30th June 2016, the Company had 69 new aircraft and five used Boeing 777-300 aircraft due for delivery up to 2024.

(e) 56 of the 61 aircraft which are subject to operating leases are leased from third parties. The remaining five of such aircraft (three Boeing 747-400BCFs and two Airbus A330-300s) are leased within the Group.

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 60.0% owned by Cathay Pacific. It operates express cargo services for DHL Express.
- Air Hong Kong operates eight owned Airbus A300-600F freighters, two dry leased Airbus A300-600F freighters and three Boeing 747-400BCF converted freighters dry leased from Cathay Pacific.
- Air Hong Kong operates six flights per week services to Bangkok, Ho Chi Minh City, Osaka, Penang (via Ho Chi Minh City), Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week services to Beijing, Manila and Nagoya.
- On-time performance was 86.0% within 15 minutes.
- Compared with the first half of 2015, capacity increased by 0.5% to 386 million available tonne kilometres. The load factor decreased by 1.4 percentage points to 65.0%. Revenue tonne kilometres decreased by 1.6% to 251 million.
- Air Hong Kong recorded a decrease in profit in the first half of 2016 compared with the first half of 2015.

Asia Miles Limited ("AML")

- AML, a wholly owned subsidiary, manages the Cathay Pacific Group's reward programme. It has more than eight million members.
- AML achieved an increase in profit in the first half of 2016 compared with the first half of 2015. This reflected an increase in business volume.

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

- CPCS, a wholly owned subsidiary, operates the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 43 international airlines in Hong Kong. It produced 84,000 meals per day on average for 200 flights per day on average in the first half of 2016 (increases of 4.4% and 2.8% respectively compared with the first half of 2015). CPCS had a 67.0% share of the flight catering market in Hong Kong in the first half of 2016.
- CPCS's profit in the first half of 2016 decreased compared with the first half of 2015. Increases in staff, maintenance and depreciation costs more than offset an increase in revenue.
- An expanded facility with 40.0% additional capacity is scheduled to start operating in the fourth quarter of 2016.
- In kitchens outside Hong Kong, profits were generally in line with expectations.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, operates the Group's cargo terminal at Hong Kong International Airport. The terminal's annual handling capacity is 2.6 million tonnes.
- In the first half of 2016, four more airlines became customers. All Nippon Airways became a customer in July. Lufthansa Cargo AG will become a customer in October.
- CPSL handled 824 thousand tonnes of cargo in the first half of 2016, 50.0% of which were transhipments. Import and export shipments accounted for 17.0% and 33.0% respectively of the total.

- The financial results in the first half of 2016 improved compared with the first half of 2015. This was mainly due to an increase in the number of customers and effective management of operating costs.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services at Hong Kong International Airport. At 30th June 2016, it provided services to 24 airlines, including Cathay Pacific and Dragonair.
- In the first half of 2016, HAS had 47.3% and 19.9% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- In the first half of 2016, passenger handling flights increased by 4.5% and ramp handling flights increased by 2.6% compared with the same period in 2015.
- The financial results for the first half of 2016 deteriorated by comparison with the first half of 2015. This reflected limited rate increases and significant increases in staff costs, the latter necessitated by labour shortages.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific had a 20.13% interest as at 30th June 2016, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China. In July 2015, Air China proposed the issue of A shares. As of 20th July 2016, the Public Offering Review Committee of China Securities Regulatory Commission (the "CSRC") has reviewed the application for the non-public issue of A shares and gave it a preliminary approval. Air China will publish a further announcement once it receives formal approval from the CSRC. When the issue happens, Cathay Pacific's shareholding in Air China will be diluted.
- At 30th June 2016, Air China operated 263 domestic and 114 international (including regional) routes to 39 countries and regions, including 61 overseas cities, four regional cities and 108 domestic cities.
- Our share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently our 2016 interim results include Air China's results for the six months ended 31st March 2016, adjusted for any significant events or transactions for the period from 1st April 2016 to 30th June 2016.
- Air China's results improved significantly in the six months to 31st March 2016. This reflected lower fuel prices, strong passenger demand and lower exchange losses from 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. Its headquarters are in Beijing. Its main operating base is in Shanghai Pudong.
- At 30th June 2016, Air China Cargo operated 15 freighters. It flies to 10 cities in Mainland China and 11 cities outside Mainland China. Taking into account its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to more than 170 destinations.
- In the first half of 2016, Air China Cargo recorded a loss compared to a profit in the first half of 2015. Savings from lower fuel prices were more than offset by unrealised exchange losses on loans denominated in United States dollars and lower yield in the highly competitive air cargo market.

PASSENGER SERVICES

Our passenger business in the first six months of 2016 was weaker than in the same period of 2015. The Group's passenger revenue in the first six months of 2016 was HK$33,413 million, a decrease of 7.8% compared to the same period in 2015. Capacity increased by 4.2%, reflecting the introduction of new routes and increased frequencies on other routes. Load factor decreased by 1.4 percentage points, to 84.5%. Revenue was adversely affected by the suspension (from February) of fuel surcharges, which remained suspended for the rest of the period despite a subsequent rise in fuel prices. Yield fell by 10.1% to HK54.3 cents, reflecting the suspension of fuel surcharges, strong competition and adverse currency movements. There was a significant reduction in premium corporate travel, particularly on long-haul routes. Revenue from long-haul routes declined compared to the same period in 2015, despite a 4.7% increase in long-haul capacity.

Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair passenger services for the first half of 2016 were as follows:

	ASK (million)			Load factor (%)			Yield
	2016	2015	**Change**	**2016**	2015	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**4,679**	4,959	**-5.6%**	**80.6**	83.7	**-3.1%pt**	**-7.5%**
Southwest Pacific and South Africa	**9,911**	9,592	**+3.3%**	**88.2**	88.8	**-0.6%pt**	**-14.0%**
Southeast Asia	**10,662**	10,221	**+4.3%**	**85.1**	83.1	**+2.0%pt**	**-10.5%**
Europe	**12,347**	11,395	**+8.4%**	**86.1**	88.1	**-2.0%pt**	**-12.6%**
North Asia	**15,392**	14,987	**+2.7%**	**79.2**	80.6	**-1.4%pt**	**-8.2%**
North America	**19,656**	18,535	**+6.0%**	**86.2**	89.3	**-3.1%pt**	**-8.6%**
Overall	**72,647**	69,689	**+4.2%**	**84.5**	85.9	**-1.4%pt**	**-10.1%**

- The slowdown in the Mainland China economy and economic fragility elsewhere caused restrictions to be placed on corporate travel. This adversely affected premium class demand, particularly on long-haul routes.
- Revenue from long-haul routes declined compared to the same period in 2015, despite a 4.7% increase in long-haul capacity.
- Premium class yield and load factor were lower than in the first half of 2015. Economy class yield weakened in the second quarter of 2016.
- The relative strength of the Hong Kong and United States dollars adversely affected revenue on routes to Mainland China, Australia, Canada, Europe and South Africa.
- In February, we stopped levying fuel surcharges, which adversely affected yield. The surcharges remained suspended for the rest of the period despite a subsequent rise in fuel prices.
- Yield was further affected by strong competition, adverse currency movements and a significant reduction in premium corporate travel.

- Passenger numbers in the first half of 2016 increased by 2.7%, though slightly behind the capacity increase during the same period. As a result, passenger load factors declined by 1.4 percentage points compared to the same period last year.

- Passenger capacity increased by 4.2% in the first half of 2016, reflecting the introduction of new routes in the second half of 2015, the introduction of the Madrid route in June 2016 and increases in frequency on some existing routes.

- We introduced a four-times-weekly service to Madrid in June, using Boeing 777-300ER aircraft. The service has been well received. We will introduce a four-times-weekly service to London Gatwick in September, using Airbus A350-900XWB aircraft.

- Demand for travel originating from Hong Kong was strong in the first two months of the year, but weakened thereafter. Corporate travel originating in Hong Kong was well below expectations, particularly to London and New York. Numbers travelling declined for the first time since 2009, when business was affected by the financial crisis.

- We sold premium class tickets on a promotional basis to leisure travellers, in an effort to counter the shortfall in corporate travel.

- Our weekly "fanfares" promotions in Hong Kong demonstrate our commitment to offering good-value fares in our home market.

- Tourism from Mainland China to Hong Kong is weak. To compensate, we have been trying to get passengers from Mainland China to connect through Hong Kong, with some success. Demand for connecting flights to Australia and North America was strong in the first six months of 2016.

- Demand for travel originating from the Pearl River Delta area was strong, though there is strong competition from other airlines and airports.

- Load factors were generally high on Middle Eastern routes. But low oil prices adversely affected Middle Eastern economies and consequently the demand for travel originating from the Middle East.

- We stopped operating flights to Doha in February. We still offer codeshare services with Qatar Airways on this route.

- Demand, yield and revenue on routes to the Indian subcontinent improved. Demand on the Nepal route, which was depressed by the 2015 earthquake, has recovered. The introduction of daily non-stop flights to Colombo has been well received.

- Demand on the Johannesburg route was steady.

- We increased capacity on the Auckland route by using Boeing 777-300ER aircraft instead of Airbus A340-300 aircraft from December 2015 to February 2016. The strategic agreement between Cathay Pacific and Air New Zealand in relation to this route has been reauthorised until 31st October 2019.

- Demand on the Australian routes was robust. Increased capacity from Mainland China carriers and the weakness of the Australian dollar put pressure on yield.

- The performance of the Southeast Asian routes was satisfactory.

- Demand for travel to Thailand has gradually recovered.

- Demand for leisure travel to Singapore and Malaysia was strong, but so was competition.

- Demand for travel to Indonesia was steady. Traffic on the Philippines routes was disrupted by the presidential election in May. The subsequent recovery was slower than expected.

- Cathay Pacific announced to stop operating to Kuala Lumpur in early 2017. Dragonair will operate this four-times-daily service instead.

- Our increased capacity to Europe (resulting from the introduction of new routes and the use of bigger aircraft on some existing routes) is being absorbed by the market.

- Our London and Manchester routes were adversely affected by the weakness of sterling and strong competition. We are maintaining our market share on United Kingdom routes.

- Demand for travel to and from Taiwan was strong, despite strong competition and more cross-strait services. There was good demand for travel between Taiwan and Japan and Korea, but yield was under pressure due to increased capacity.

- Demand on Korean routes was satisfactory. Load factors were high. Strong competition put pressure on yield.

- Demand for travel to Japan was adversely affected by the strength of the Japanese yen. Competition on Japanese routes increased. Demand for travel to Fukuoka has been weak since the earthquake in April 2016.

- Revenue from United States routes increased modestly. A reduction in corporate travel adversely affected premium class revenue. Competition intensified as Mainland Chinese carriers operated more direct flights to the United States. This put pressure on yield.

- Our Boston service has been well received since its introduction in 2015. From May to August this year, we are increasing the number of flights per week from four to five.

- Demand on Canada routes was stable. We are increasing the number of Toronto flights during the summer peak period from 10 to 12 per week.

CARGO SERVICES

The Group's cargo revenue in the first six months of 2016 was HK$9,415 million, a decrease of 17.2% compared to the same period in 2015. The cargo capacity of Cathay Pacific and Dragonair increased by 0.6%. The load factor decreased by 1.9 percentage points, to 62.2%. Tonnage carried decreased by 0.2%. The overall market was weak during the period, although tonnage stabilised in the second quarter. Yield fell by 17.6% to HK$1.59, reflecting strong competition, overcapacity and the suspension (from April) of fuel surcharges. Demand on European routes continued to be weak and demand on transpacific routes weakened. India was one of the few routes where demand strengthened. We managed freighter capacity in line with demand and carried a higher percentage of cargo in the bellies of our passenger aircraft.

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for the first half of 2016 were as follows:

	ATK (million)			Load factor (%)			Yield
	2016	2015	**Change**	**2016**	2015	**Change**	**Change**
Cathay Pacific and Dragonair	**8,021**	7,971	**+0.6%**	**62.2**	64.1	**-1.9%pt**	**-17.6%**

- Cargo demand was generally weak throughout the first half of 2016, although tonnage stabilised in the second quarter. Low fuel prices discouraged carriers from reducing capacity. Strong competition and overcapacity put downward pressure on yield. So did the suspension (from April) of Hong Kong fuel surcharges and lower fuel surcharges collected outside Hong Kong.

- Shipments from Hong Kong and Mainland China to North America accounted for the majority of our total shipments. Rates were under severe pressure because of overcapacity.

- We operated 33 flights per week to North America in the first half of 2016, compared with 37 per week in the first half of 2015.

- The weakness of the Renminbi adversely affected revenue from Mainland China.

- Shipments of pharmaceutical products and mail (the yield on which is above average) increased by 80% and 11% respectively.

- Demand for shipments to and from the Indian sub-continent increased. We increased services accordingly. The yield on shipments from the region was under pressure. Airport congestion limited shipments from Dhaka.

- Demand for shipments within Asia was strong, but yield was under pressure.

- Shipments from the Southwest Pacific to Mainland China grew strongly.

- Northeast Asia showed resilience with steady exports of electronics, machineries and perishable products. However the year-on-year comparison was distorted by the exceptional high base of 2015 due to the shipment of automobile parts from Japan to North America in the first quarter of 2015 on a product recall incident.

- Shipments of perishable products from the Americas to Asia grew strongly.

- In May, we signed a joint business agreement with Lufthansa Cargo AG in relation to cargo routes between Hong Kong and Europe. The agreement will come into effect in the first quarter of 2017.

- One parked Boeing 747-400F freighter aircraft was delivered to Boeing in July and another aircraft of this type in August. The remaining two aircraft of this type will be delivered to Boeing in August and September.

- We will introduce a twice-weekly service to Portland in November.

- CPSL's air cargo terminal handled 824 thousand tonnes of cargo in the first half of 2016. The terminal handles cargo for Cathay Pacific, Dragonair, Air Hong Kong and 10 other airlines.

LOYALTY AND REWARD PROGRAMMES

The Marco Polo Club

- The Marco Polo Club loyalty programme provides benefits and services to the frequent flyers of Cathay Pacific and Dragonair. It has more than one million members.
- Members of the Club contribute to almost a quarter of the revenues of Cathay Pacific and Dragonair and fly on one-sixth of their flights.
- In April, the basis on which points are earned by members of the Club was changed. Cabin class, fare class and distance travelled are the determining factors. The new basis is in line with that used by other loyalty programmes. It reflects better than the old basis the contributions which our passengers make to the revenues of our airlines.
- The new basis for earning points does not change the benefits available to qualifying members of the Club. Silver class members (and above) continue to have access to lounges and all members are entitled to priority boarding and check-in.

Asia Miles

- Asia Miles is a leading travel and lifestyle rewards programme in Asia. It has more than eight million members and over 700 partners worldwide, including 24 airlines and more than 400 restaurants, plus hotels and shops.
- There was a 9% increase in redemptions by Asia Miles members on Cathay Pacific and Dragonair flights in the first half of 2016 compared to the same period of last year.
- Marco Polo Club members are also members of Asia Miles.

ANTITRUST PROCEEDINGS

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances in line with accounting policy 20 on page 105 in the 2015 Annual Report.

REVENUE

	Group		Cathay Pacific and Dragonair	
	Six months ended 30th June		Six months ended 30th June	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M
Passenger services	**33,413**	36,226	**33,413**	36,226
Cargo services	**9,415**	11,376	**7,951**	9,865
Catering, recoveries and other services	**2,855**	2,786	**2,543**	2,474
Total revenue	**45,683**	50,388	**43,907**	48,565

- Group passenger revenue decreased by 7.8% compared with a 4.2% increase in capacity.
- Group cargo revenue decreased by 17.2%. Combined Cathay Pacific and Dragonair cargo revenue decreased by 19.4% compared with a 0.6% increase in capacity.
- Group revenue from catering, recoveries and other services increased by 2.5%.

OPERATING EXPENSES

	Group			Cathay Pacific and Dragonair		
	Six months ended 30th June			Six months ended 30th June		
	2016 HK$M	2015 HK$M	**Change**	**2016 HK$M**	2015 HK$M	**Change**
Staff	**9,867**	9,373	**+5.3%**	**8,812**	8,399	**+4.9%**
Inflight service and passenger expenses	**2,372**	2,284	**+3.9%**	**2,372**	2,284	**+3.9%**
Landing, parking and route expenses	**7,376**	7,266	**+1.5%**	**7,250**	7,101	**+2.1%**
Fuel, including hedging losses	**13,259**	16,619	**-20.2%**	**13,081**	16,357	**-20.0%**
Aircraft maintenance	**4,170**	3,653	**+14.2%**	**3,996**	3,509	**+13.9%**
Aircraft depreciation and operating leases	**5,065**	5,568	**-9.0%**	**4,994**	5,482	**-8.9%**
Other depreciation, amortisation and operating leases	**1,213**	1,133	**+7.1%**	**905**	825	**+9.7%**
Commissions	**371**	400	**-7.3%**	**371**	400	**-7.3%**
Others	**1,326**	1,730	**-23.4%**	**2,221**	2,406	**-7.7%**
Operating expenses	**45,019**	48,026	**-6.3%**	**44,002**	46,763	**-5.9%**
Net finance charges	**607**	559	**+8.6%**	**522**	479	**+9.0%**
Total operating expenses	**45,626**	48,585	**-6.1%**	**44,524**	47,242	**-5.8%**

- The Group's total operating expenses decreased by 6.1% to HK$45,626 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.24 to HK$2.98.

CATHAY PACIFIC AND DRAGONAIR OPERATING RESULTS ANALYSIS

	Six months ended 30th June	
	2016 HK$M	2015 HK$M
Airlines' (loss)/profit before taxation	**(618)**	1,323
Taxation	**(165)**	(368)
Airlines' (loss)/profit after taxation	**(783)**	955
Share of profits from subsidiaries and associates	**1,136**	1,017
Profit attributable to the shareholders of Cathay Pacific	**353**	1,972

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

	HK$M	
2015 interim airlines' profit before taxation	**1,323**	
Decrease of revenue	**(4,658)**	– Passenger revenue decreased due to a 10.1% decrease in yield and an 1.4% points decrease in load factor, offset in part by a 4.2% increase in capacity. – Cargo revenue decreased due to a 17.6% decrease in yield and an 1.9% points decrease in load factor, offset in part by a 0.6% increase in capacity.
Decrease/(increase) of costs:		
– Fuel, including hedging losses	**3,276**	– Fuel costs decreased primarily due to a 33.3% decrease in the average into-plane fuel price, offset in part by a 2.0% increase in consumption and an increase in hedging losses.
– Aircraft maintenance	**(487)**	– Increased mainly due to increases in operational capacity, higher maintenance fees from higher charge rates and more repair programmes to improve aircraft availability.
– Landing, parking and route expenses	**(149)**	– Increased mainly due to an increase in flight frequencies.
– Depreciation, amortisation and operating leases	**408**	– Decreased mainly due to decreases in depreciation of three Airbus A340-300 aircraft and four Boeing 747-400F freighters.
– Staff	**(414)**	– Increased mainly due to an increase in headcount and salaries.
– All other operating expenses, including inflight service, commissions, net finance charges and others	**83**	– Decreased mainly due to a net decrease in various operating expenses.
2016 interim airlines' loss before taxation	**(618)**	

FUEL EXPENDITURE AND HEDGING

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

	Six months ended 30th June	
	2016 HK$M	2015 HK$M
Gross fuel cost	**8,769**	12,876
Fuel hedging losses	**4,490**	3,743
Fuel cost	**13,259**	16,619

FINANCIAL POSITION

- Additions to property, plant and equipment were HK$2,437 million, comprising HK$1,549 million for aircraft and related equipment and HK$888 million for other equipment and buildings.
- Gross borrowings decreased by 0.1% to HK$63,034 million. These are fully repayable by 2027 and are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, with 46.0% at fixed rates of interest after taking into account the effect of related derivatives.
- Liquid funds, 71.0% of which are denominated in the United States dollars, increased by 2.2% to HK$21,096 million.
- Net borrowings (after deduction of liquid funds) decreased by 1.2% to HK$41,938 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 5.7% to HK$50,664 million. This was in part due to reduction in unrealised hedging losses of HK$4,046 million recognised in the cash flow hedging reserve, offset by retained profit and other reserve movements.
- The net debt/equity ratio decreased from 0.89 times to 0.83 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 2015 Annual Report.

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

KPMG

We have reviewed the interim financial report set out on pages 23 to 41 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 2016 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 2016 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
17th August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30th June 2016 – Unaudited

	Note	2016 HK$M	2015 HK$M	2016 US$M	2015 US$M
Revenue					
Passenger services		**33,413**	36,226	**4,284**	4,644
Cargo services		**9,415**	11,376	**1,207**	1,459
Catering, recoveries and other services		**2,855**	2,786	**366**	357
Total revenue		**45,683**	50,388	**5,857**	6,460
Expenses					
Staff		**(9,867)**	(9,373)	**(1,265)**	(1,202)
Inflight service and passenger expenses		**(2,372)**	(2,284)	**(304)**	(293)
Landing, parking and route expenses		**(7,376)**	(7,266)	**(946)**	(931)
Fuel, including hedging losses		**(13,259)**	(16,619)	**(1,700)**	(2,131)
Aircraft maintenance		**(4,170)**	(3,653)	**(535)**	(468)
Aircraft depreciation and operating leases		**(5,065)**	(5,568)	**(649)**	(714)
Other depreciation, amortisation and operating leases		**(1,213)**	(1,133)	**(155)**	(145)
Commissions		**(371)**	(400)	**(48)**	(51)
Others		**(1,326)**	(1,730)	**(170)**	(222)
Operating expenses		**(45,019)**	(48,026)	**(5,772)**	(6,157)
Operating profit	4	**664**	2,362	**85**	303
Finance charges		**(851)**	(686)	**(109)**	(88)
Finance income		**244**	127	**31**	16
Net finance charges	5	**(607)**	(559)	**(78)**	(72)
Share of profits of associates		**683**	771	**87**	99
Profit before taxation		**740**	2,574	**94**	330
Taxation	6	**(237)**	(444)	**(30)**	(57)
Profit for the period		**503**	2,130	**64**	273
Non-controlling interests		**(150)**	(158)	**(19)**	(20)
Profit attributable to the shareholders of Cathay Pacific		**353**	1,972	**45**	253
Profit for the period		**503**	2,130	**64**	273
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**4,046**	2,713	**519**	348
Revaluation of available-for-sale financial assets		**73**	103	**9**	13
Share of other comprehensive income of associates		**(180)**	(674)	**(23)**	(87)
Exchange differences on translation of foreign operations		**(493)**	3	**(63)**	1
Other comprehensive income for the period, net of taxation	7	**3,446**	2,145	**442**	275
Total comprehensive income for the period		**3,949**	4,275	**506**	548
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**3,799**	4,117	**487**	528
Non-controlling interests		**150**	158	**19**	20
		3,949	4,275	**506**	548
Earnings per share (basic and diluted)	8	**9.0¢**	50.1¢	**1.2¢**	6.4¢

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 27 to 41 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30th June 2016 – Unaudited

	Note	30th June 2016 HK$M	31st December 2015 HK$M	30th June 2016 US$M	31st December 2015 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	*10*	**98,987**	100,552	**12,691**	12,891
Intangible assets	*11*	**10,754**	10,606	**1,379**	1,360
Investments in associates	*12*	**22,487**	22,878	**2,883**	2,933
Other long-term receivables and investments		**5,026**	5,069	**644**	650
Deferred tax assets		**652**	497	**83**	64
		137,906	139,602	**17,680**	17,898
Long-term liabilities	*13*	**(49,624)**	(49,867)	**(6,362)**	(6,393)
Other long-term payables	*14*	**(11,885)**	(15,838)	**(1,524)**	(2,031)
Deferred tax liabilities		**(9,878)**	(9,278)	**(1,266)**	(1,190)
		(71,387)	(74,983)	**(9,152)**	(9,614)
Net non-current assets		**66,519**	64,619	**8,528**	8,284
Current assets and liabilities					
Stock		**1,449**	1,366	**186**	175
Trade, other receivables and other assets	*15*	**8,464**	9,715	**1,085**	1,246
Assets held for sale	*16*	**1,449**	1,497	**186**	192
Liquid funds	*17*	**21,096**	20,647	**2,704**	2,647
		32,458	33,225	**4,161**	4,260
Current portion of long-term liabilities		**(13,889)**	(13,782)	**(1,780)**	(1,767)
Related pledged security deposits		**479**	544	**61**	70
Net current portion of long-term liabilities	*13*	**(13,410)**	(13,238)	**(1,719)**	(1,697)
Trade and other payables	*18*	**(19,915)**	(23,025)	**(2,553)**	(2,952)
Unearned transportation revenue		**(14,216)**	(13,012)	**(1,822)**	(1,668)
Taxation		**(614)**	(502)	**(79)**	(65)
		(48,155)	(49,777)	**(6,173)**	(6,382)
Net current liabilities		**(15,697)**	(16,552)	**(2,012)**	(2,122)
Total assets less current liabilities		**122,209**	123,050	**15,668**	15,776
Net assets		**50,822**	48,067	**6,516**	6,162
CAPITAL AND RESERVES					
Share capital and other statutory capital reserves	*19*	**17,106**	17,106	**2,193**	2,193
Other reserves		**33,558**	30,821	**4,302**	3,951
Funds attributable to the shareholders of Cathay Pacific		**50,664**	47,927	**6,495**	6,144
Non-controlling interests		**158**	140	**21**	18
Total equity		**50,822**	48,067	**6,516**	6,162

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 27 to 41 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30th June 2016 – Unaudited

	2016 HK$M	2015 HK$M	**2016 US$M**	2015 US$M
Operating activities				
Cash generated from operations	**5,569**	9,210	**714**	1,181
Interest received	**97**	78	**12**	10
Net interest paid	**(504)**	(411)	**(65)**	(53)
Tax paid	**(205)**	(94)	**(26)**	(12)
Net cash inflow from operating activities	**4,957**	8,783	**635**	1,126
Investing activities				
Net increase in liquid funds other than cash and cash equivalents	**(1,020)**	(2,257)	**(131)**	(289)
Proceeds from scrap/sales of property, plant and equipment	**12**	12	**2**	2
Proceeds from sales of assets held for sale	**279**	43	**36**	5
Net (increase)/decrease in other long-term receivables and investments	**(47)**	26	**(6)**	3
Payments for property, plant and equipment and intangible assets	**(2,828)**	(8,054)	**(362)**	(1,033)
Dividends received from associates	**345**	12	**44**	2
Repayment of loans to associates	**19**	–	**2**	–
Loans to associates	**(12)**	(77)	**(2)**	(10)
Net cash outflow from investing activities	**(3,252)**	(10,295)	**(417)**	(1,320)
Financing activities				
New financing	**6,088**	5,121	**781**	657
Loan and finance lease repayments	**(7,253)**	(6,513)	**(930)**	(835)
Security deposits placed	**(23)**	(22)	**(3)**	(3)
Dividends paid – to the shareholders of Cathay Pacific	**(1,062)**	(1,023)	**(136)**	(131)
– to non-controlling interests	**(132)**	(140)	**(17)**	(18)
Net cash outflow from financing activities	**(2,382)**	(2,577)	**(305)**	(330)
Decrease in cash and cash equivalents	**(677)**	(4,089)	**(87)**	(524)
Cash and cash equivalents at 1st January	**7,207**	10,211	**924**	1,309
Effect of exchange differences	**35**	(43)	**5**	(6)
Cash and cash equivalents at 30th June	**6,565**	6,079	**842**	779

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 27 to 41 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2016 – Unaudited

	Attributable to the shareholders of Cathay Pacific							
	Share capital 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 2016	**17,106**	**45,900**	**730**	**(15,545)**	**(264)**	**47,927**	**140**	**48,067**
Changes in equity for the six months ended 30th June 2016:								
Profit for the period	**–**	**353**	**–**	**–**	**–**	**353**	**150**	**503**
Other comprehensive income	**–**	**–**	**73**	**4,046**	**(673)**	**3,446**	**–**	**3,446**
Total comprehensive income for the period	**–**	**353**	**73**	**4,046**	**(673)**	**3,799**	**150**	**3,949**
2015 second interim dividend	**–**	**(1,062)**	**–**	**–**	**–**	**(1,062)**	**–**	**(1,062)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(132)**	**(132)**
At 30th June 2016	**17,106**	**45,191**	**803**	**(11,499)**	**(937)**	**50,664**	**158**	**50,822**
At 1st January 2015	17,106	42,156	1,051	(10,128)	1,537	51,722	131	51,853
Changes in equity for the six months ended 30th June 2015:								
Profit for the period	–	1,972	–	–	–	1,972	158	2,130
Other comprehensive income	–	–	103	2,713	(671)	2,145	–	2,145
Total comprehensive income for the period	–	1,972	103	2,713	(671)	4,117	158	4,275
2014 second interim dividend	–	(1,023)	–	–	–	(1,023)	–	(1,023)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(140)	(140)
At 30th June 2015	17,106	43,105	1,154	(7,415)	866	54,816	149	54,965

The notes on pages 27 to 41 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 17th August 2016.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2015 annual financial statements except for those noted in note 2 below.

2. Changes in accounting policies

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

- HKFRSs (Amendments) "Annual Improvements to HKFRSs 2012-2014 Cycle"
- HKAS 16 and HKAS 38 (Amendments) "Clarification of Acceptable Methods of Depreciation and Amortisation"
- HKAS 1 (Amendment) "Presentation of Financial Statements: Disclosure Initiative"

The adoption of the amendments 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. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M
Sales to external customers	**45,083**	49,822	**600**	566			**45,683**	50,388
Inter-segment sales	**4**	4	**1,873**	1,797			**1,877**	1,801
Segment revenue	**45,087**	49,826	**2,473**	2,363			**47,560**	52,189
Segment results	**367**	2,270	**297**	92			**664**	2,362
Net finance charges	**(539)**	(495)	**(68)**	(64)			**(607)**	(559)
	(172)	1,775	**229**	28			**57**	1,803
Share of profits of associates					**683**	771	**683**	771
Profit before taxation							**740**	2,574
Taxation	**(237)**	(441)	**–**	(3)			**(237)**	(444)
Profit for the period							**503**	2,130

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 profits of associates.

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

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

3. Segment information (continued)

(b) Geographical information

	Six months ended 30th June	
	2016 HK$M	2015 HK$M
Revenue by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**22,712**	24,699
– Japan, Korea and Taiwan	**4,175**	4,767
India, Middle East, Pakistan and Sri Lanka	**1,939**	2,260
Southwest Pacific and South Africa	**2,760**	3,327
Southeast Asia	**3,837**	4,179
Europe	**4,075**	4,217
North America	**6,185**	6,939
	45,683	50,388

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 the U.S.A., Canada and Latin America. A geographic analysis of segment results is not disclosed for the reasons set out in the 2015 Annual Report.

4. Operating profit

	Six months ended 30th June	
	2016 HK$M	2015 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– leased	**1,017**	1,129
– owned	**2,870**	3,174
Amortisation of intangible assets	**243**	223
Operating lease rentals		
– land and buildings	**525**	478
– aircraft and related equipment	**1,592**	1,675
– others	**32**	24
Gain on disposal of assets held for sale	**(232)**	–
Provision for impairment of assets held for sale	**2**	–
Loss on disposal of property, plant and equipment, net	**103**	101
Cost of stock expensed	**1,083**	979
Exchange differences, net	**(10)**	42
Auditors' remuneration	**6**	7
Dividend income from unlisted investments	**(15)**	(74)

5. Net finance charges

	Six months ended 30th June 2016 HK$M	2015 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**228**	230
– interest income on related security deposits, notes and zero coupon bonds	**(2)**	(9)
	226	221
– bank loans and overdrafts		
– wholly repayable within five years	**101**	63
– not wholly repayable within five years	**209**	168
– other loans		
– wholly repayable within five years	**48**	51
– not wholly repayable within five years	**8**	8
– other long-term receivables	**(10)**	(11)
	582	500
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(62)**	(34)
– bank deposits and others	**(81)**	(67)
	(143)	(101)
Fair value change:		
– Loss/(gain) on obligations under finance leases designated as at fair value through profit or loss	**97**	(159)
– loss on financial derivatives	**71**	319
	168	160
	607	559

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$69 million (2015: net losses of HK$183 million).

6. Taxation

	Six months ended 30th June	
	2016 HK$M	2015 HK$M
Current tax expenses		
– Hong Kong profits tax	**97**	103
– overseas tax	**119**	116
– under provisions for prior years	**80**	–
Deferred tax		
– origination and reversal of temporary differences	**(59)**	225
	237	444

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 21(d) to the financial statements).

7. Other comprehensive income

	Six months ended 30th June	
	2016 HK$M	2015 HK$M
Cash flow hedges		
– recognised during the period	**551**	(367)
– transferred to profit or loss	**3,990**	3,316
– deferred tax recognised	**(495)**	(236)
Revaluation of available-for-sale financial assets		
– recognised during the period	**73**	103
Share of other comprehensive income of associates		
– recognised during the period	**(180)**	(674)
Exchange differences on translation of foreign operations		
– recognised during the period	**(493)**	(7)
– reclassified to profit or loss	**–**	10
Other comprehensive income for the period	**3,446**	2,145

8. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$353 million (2015: HK$1,972 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2015: 3,934 million) shares.

9. Dividend

The Directors have declared a first interim dividend of HK$0.05 per share (2015: HK$0.26 per share) for the year ending 31st December 2016. The interim dividend which totals HK$197 million (2015: HK$1,023 million) will be paid on 4th October 2016 to shareholders registered at the close of business on the record date, being Friday, 9th September 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 7th September 2016. This interim dividend has not been recognised as a liability at the reporting date.

The register of members will be closed on Friday, 9th September 2016, 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, 8th September 2016.

10. Property, plant and equipment

	Aircraft and related equipment HK$M	Other equipment HK$M	Buildings HK$M	Buildings under construction HK$M	Total HK$M
Cost					
At 1st January 2016	**139,175**	**4,603**	**12,123**	**1,456**	**157,357**
Additions	**1,549**	**218**	**276**	**394**	**2,437**
Disposals	**(382)**	**(158)**	**(148)**	**–**	**(688)**
At 30th June 2016	**140,342**	**4,663**	**12,251**	**1,850**	**159,106**
Accumulated depreciation and impairment					
At 1st January 2016	**49,876**	**2,943**	**3,986**	**–**	**56,805**
Charge for the period	**3,473**	**154**	**260**	**–**	**3,887**
Disposals	**(299)**	**(143)**	**(131)**	**–**	**(573)**
At 30th June 2016	**53,050**	**2,954**	**4,115**	**–**	**60,119**
Net book value					
At 30th June 2016	**87,292**	**1,709**	**8,136**	**1,850**	**98,987**
At 31st December 2015	89,299	1,660	8,137	1,456	100,552

Property, plant and equipment at 30th June 2016 include leased assets of HK$32,748 million (31st December 2015: HK$34,304 million).

11. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2016	**7,666**	**4,498**	**253**	**12,417**
Additions	**–**	**391**	**–**	**391**
At 30th June 2016	**7,666**	**4,889**	**253**	**12,808**
Accumulated amortisation				
At 1st January 2016	**–**	**1,806**	**5**	**1,811**
Charge for the period	**–**	**241**	**2**	**243**
At 30th June 2016	**–**	**2,047**	**7**	**2,054**
Net book value				
At 30th June 2016	**7,666**	**2,842**	**246**	**10,754**
At 31st December 2015	7,666	2,692	248	10,606

12. Investments in associates

	30th June 2016 HK$M	31st December 2015 HK$M
Share of net assets		
– listed in Hong Kong	**15,194**	15,282
– unlisted	**2,058**	2,241
Goodwill	**3,795**	3,882
Loans due from associates	**1,440**	1,473
	22,487	22,878

13. Long-term liabilities

	30th June 2016		31st December 2015	
	Current HK$M	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	**9,240**	**27,662**	9,164	26,438
Obligations under finance leases	**4,170**	**21,962**	4,074	23,429
	13,410	**49,624**	13,238	49,867

14. Other long-term payables

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

15. Trade, other receivables and other assets

	30th June 2016 HK$M	31st December 2015 HK$M
Trade debtors	**5,270**	5,360
Derivative financial assets – current portion	**736**	1,145
Other receivables and prepayments	**2,332**	3,083
Due from associates and other related companies	**126**	127
	8,464	9,715

	30th June 2016 HK$M	31st December 2015 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,015**	5,038
One to three months overdue	**133**	167
More than three months overdue	**122**	155
	5,270	5,360

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.

16. Assets held for sale

	30th June 2016 HK$M	31st December 2015 HK$M
Assets held for sale	**1,449**	1,497

17. Liquid funds

	30th June 2016 HK$M	31st December 2015 HK$M
Short-term deposits and bank balances	**6,565**	7,207
Short-term deposits maturing beyond three months when placed	**9,500**	7,715
Funds with investment managers		
– debt securities listed outside Hong Kong	**4,719**	4,698
– bank deposits	**47**	7
Other liquid investments		
– debt securities listed outside Hong Kong	**59**	817
– bank deposits	**206**	203
	21,096	20,647

Included in other liquid investments are bank deposits of HK$206 million (31st December 2015: HK$203 million) and debt securities of HK$59 million (31st December 2015: HK$134 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.

18. Trade and other payables

	30th June 2016 HK$M	31st December 2015 HK$M
Trade creditors	**4,988**	5,341
Derivative financial liabilities – current portion	**7,432**	9,456
Other payables	**7,112**	7,732
Due to associates	**218**	227
Due to other related companies	**165**	269
	19,915	23,025

	30th June 2016 HK$M	31st December 2015 HK$M
Analysis of trade creditors by age:		
Current	**4,868**	5,023
One to three months overdue	**111**	308
More than three months overdue	**9**	10
	4,988	5,341

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

19. Share capital

	30th June 2016		31st December 2015	
	Number of shares	**HK$M**	Number of shares	HK$M
Issued and fully paid				
At 30th June / 31st December	**3,933,844,572**	**17,106**	3,933,844,572	17,106

During the period, the Group did not purchase, sell or redeem any of its shares (2015: nil). At 30th June 2016, 3,933,844,572 shares were in issue (31st December 2015: 3,933,844,572 shares).

20. 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 2016		Six months ended 30th June 2015	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Revenue	**112**	**20**	107	7
Aircraft maintenance costs	**585**	**1,132**	546	1,080
Operating costs	**379**	**142**	344	209
Dividend income	**393**	**1**	262	11
Finance income	**18**	**–**	–	–
Sales of property, plant and equipment	**–**	**–**	–	4

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

21. 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 2016 HK$M	31st December 2015 HK$M
Authorised and contracted for	**93,427**	94,272
Authorised but not contracted for	**4,723**	5,096
	98,150	99,368

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

	30th June 2016 HK$M	31st December 2015 HK$M
Associates	**4,567**	4,776
Related parties	**1,187**	1,186
Staff	**–**	200
	5,754	6,162

Related parties are companies under control of a company which has significant influence on 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.

The proceedings and civil actions, except as otherwise stated below, are ongoing and the outcomes are subject to uncertainties. The Company is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with accounting policy 20 on page 105 in the 2015 Annual Report.

21. Capital commitments and contingencies (continued)

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 57.12 million on the Company. In January 2011, the Company filed an appeal with the General Court of the European Union. The appeal was heard by the General Court in Luxembourg in May 2015. The General Court delivered judgment in December 2015 annulling the European Commission's finding against the Company. The fine of Euros 57.12 million was refunded to the Company in February 2016. The European Commission had until 26th February 2016 to appeal against the General Court's judgment. No appeal was lodged by that date. However, the European Commission may adopt a new decision.

The Company is a defendant in a number of civil claims, including class litigation and third party contribution claims, in a number of countries including the United States, Canada, the United Kingdom, Germany, the Netherlands, Norway and Korea alleging violations of applicable competition laws arising from the Company's alleged conduct relating to its air cargo operations. 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 alleged 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 was a defendant in various putative class action cases filed in the United States, in which the plaintiffs alleged 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 antitrust laws. Those 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 was approved by the Court in October 2015, resolved claims brought by all putative class members who chose not to opt out of the agreement. Certain plaintiffs opted out of the agreement. The claims of opt-out plaintiff DPWN Holdings (USA) were resolved by the payment of US$15.4 million (approximately HK$119.4 million at the exchange rate current at date of payment) in December 2014. The claims of opt-out plaintiff Schenker, AG were resolved by the payment of US$8.2 million (approximately HK$63.6 million at the exchange rate current at date of payment) in January 2015. The Company is not aware of any other opt-out plaintiff having asserted a claim, but none of the other opt-outs' claims would be material.

21. Capital commitments and contingencies (continued)

The Company was a defendant in various putative class action cases filed in the United States, in which the plaintiffs alleged 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 was approved by the Court in May 2015, resolves claims by all putative class members who chose not to opt out of the agreement. Only one passenger opted out. The Company is not aware of any claim being filed by that passenger, but any claim on behalf of that passenger would not be material.

The Company is a defendant in three putative class action cases filed in Canada, 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 the Canadian Competition Act. Two of the actions were stayed pending resolution of the third class action, which was certified in August 2015. Damages were demanded, but the amounts were not specified. The Company reached an agreement to settle all three actions in December 2015, by paying the plaintiffs CAD$6 million (approximately HK$34.9 million at the exchange rate current at date of payment). The settlement, which has been approved by the Courts in Ontario and British Columbia in July 2016 but is still subject to Court approval in Quebec, will resolve claims by all putative class members in all three actions.

22. 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 2016		31st December 2015	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Loans receivable	**503**	**545**	536	575
Long-term loans	**(36,902)**	**(38,694)**	(35,602)	(37,202)
Obligations under finance leases	**(26,611)**	**(27,379)**	(28,047)	(28,904)
Pledged security deposits	**479**	**479**	544	671

22. Financial risk management (continued)

(b) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 30th June 2016 across three levels of the fair value hierarchy defined in HKFRS 13 “Fair Value Measurement” with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using only unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using input other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value has been determined based on quotes from market makers or discounted cash flow valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using discounted cash flow valuation techniques in which any significant input is not based on observable market data.

	30th June 2016				31st December 2015			
	Level 1 HK$M	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement								
Assets								
Investments at fair value								
– listed	**506**	**–**	**–**	**506**	433	–	–	433
– unlisted	**–**	**–**	**584**	**584**	–	–	584	584
Liquid funds								
– funds with investment managers	**–**	**4,719**	**–**	**4,719**	–	4,698	–	4,698
– other liquid investments	**–**	**59**	**–**	**59**	–	817	–	817
Derivative financial assets	**–**	**2,233**	**–**	**2,233**	–	2,778	–	2,778
	506	**7,011**	**584**	**8,101**	433	8,293	584	9,310
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(2,515)**	**–**	**(2,515)**	–	(2,593)	–	(2,593)
Derivative financial liabilities	**–**	**(15,611)**	**–**	**(15,611)**	–	(21,871)	–	(21,871)
	–	**(18,126)**	**–**	**(18,126)**	–	(24,464)	–	(24,464)

22. 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. At 30th June 2016 and 31st December 2015, 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	2016: 10.0% (2015: 10.0%)	The higher the discount rate, the lower the fair value	2016: +/- 0.5% (2015: +/- 0.5%)	2016: (11)/11 (2015: (11)/11)

There was no movement in the balance of Level 3 fair value measurements during the period ended 30th June 2016 (30th June 2015: nil).

23. Interim Report 2016 and specified financial statements

The financial information relating to the year ended 31st December 2015 that is included in the Interim Report 2016 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance") in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2015 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report was prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

24. Event after the reporting period

In July 2015, Air China proposed the issue of A shares. As of 20th July 2016, the Public Offering Review Committee of China Securities Regulatory Commission (the "CSRC") has reviewed the application for the non-public issue of A shares and gave it a preliminary approval. Air China will publish a further announcement once it receives formal approval from the CSRC. When the issue happens, the Company's shareholding in Air China will be diluted.

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 2016 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. Fan Cheng resigned as an Executive Director of Air China Limited with effect from 14th April 2016.
2. Peter Wong was elected as Vice Chairman of the Board of Bank of Communications Co., Ltd. on 28th April 2016 (subject to approval of the China Banking Regulatory Commission).

DIRECTORS' INTERESTS

At 30th June 2016, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interest in the shares of Cathay Pacific Airways Limited:

	Capacity	No. of shares	Percentage of voting shares (%)
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 and short positions maintained under Section 336 of the SFO shows that at 30th June 2016 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	No. of shares	Percentage of voting shares (%)	Type of interest (Note)
1. Air China Limited	2,949,997,987	74.99	Attributable interest (a)
2. China National Aviation Holding Company	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 2016:

(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 were deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group being interested in 54.67% of the equity of Swire Pacific and controlling 63.16% of the voting rights attached to shares in Swire Pacific.

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