



INTERIM REPORT 2023

Cathay Pacific Airways Limited

Stock Code: 00293



Contents

- 2 Financial and Operational Highlights
- 4 Chair's Statement
- 7 Review of Operations
- 20 Financial Review
- 23 Review Report
- 24 Condensed Financial Statements
- 45 Information Provided in Accordance
with the Listing Rules
- 47 Disclaimer

Corporate Information

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

Investor relations

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

Corporate Affairs Department
Cathay Pacific Airways Limited
9th Floor, Central Tower
Cathay Pacific City
Hong Kong International Airport
Hong Kong
Email: ir@cathaypacific.com

Cathay Pacific Airways Limited main internet address is www.cathaypacific.com

CATHAY PACIFIC AIRWAYS LIMITED

("Cathay Pacific", or the "Company") is a leading premium travel lifestyle brand based in Hong Kong. The Cathay Group ("Cathay" or the "Group") offers products and services across four lines of business – Premium Travel, Cargo, Low-Cost Travel and Lifestyle.

The Cathay Group comprises premium full-service airline Cathay Pacific, cargo business Cathay Cargo, low-cost airline Hong Kong Express Airways Limited ("HK Express"), express all-cargo carrier AHK Air Hong Kong Limited ("Air Hong Kong"), and various other subsidiaries.

The Company was founded in Hong Kong in 1946. It has been deeply committed to its home base for more than seven decades and remains so, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres.

As at 30th June 2023, the Cathay Group's passenger and cargo airlines offered scheduled services to 74 destinations worldwide, including 17 destinations in the Chinese Mainland. Furthermore, the Group serves an additional 160 destinations through codeshare agreements.

The Group had 225 aircraft as at 30th June 2023, of which 25 were held at parking locations outside Hong Kong. There are 42 new passenger aircraft scheduled to join the Group's fleet in the coming years.

Cathay Pacific, the premium full-service airline, had 183 passenger and cargo aircraft as at 30th June 2023. It is a founding member of the **one**world global alliance, whose combined network serves more than 900 destinations worldwide.

HK Express, a low-cost airline based in Hong Kong offering scheduled services within Asia, is a wholly owned subsidiary of the Company and had 27 aircraft as at 30th June 2023. Air Hong Kong, an express all-cargo carrier offering scheduled and charter services in Asia, is a wholly owned subsidiary of the Company operating 15 aircraft as at 30th June 2023.

The Group's other businesses include its catering, laundry, ground-handling and cargo terminal companies, and its corporate headquarters at Hong Kong International Airport.

The Company owns 16.26% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in the Chinese Mainland.

As at 30th June 2023, the Cathay Group employed more than 21,900 people worldwide, of whom around 18,100 are employed in Hong Kong. Shares of the Company are listed on The Stock Exchange of Hong Kong Limited, as are the shares of its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Group Financial Statistics

		2023	2022	Change
		Six months ended 30th June		
Results				
Revenue	HK\$ million	43,593	18,551	+135.0%
Profit/(loss) attributable to the shareholders of Cathay Pacific	HK\$ million	4,268	(4,999)	+9,267
Earnings/(loss) per ordinary share				
– basic	HK cents	61.5	(82.3)	+143.8
– diluted	HK cents	55.2	(82.3)	+137.5
Dividend per ordinary share	HK\$	–	–	–
Profit/(loss) margin	%	9.8	(26.9)	+36.7%pt
Financial position				
Funds attributable to the shareholders of Cathay Pacific	HK\$ million	64,490	63,878	+1.0%
Net borrowings ^(a)	HK\$ million	44,565	58,829	-24.2%
Available unrestricted liquidity	HK\$ million	28,896	27,188	+6.3%
Ordinary shareholders' funds per ordinary share ^(b)	HK\$	7.0	6.7	+4.5%
Net debt/equity ratio ^(a)	Times	0.69	0.92	-0.23 times

Operating Statistics – Cathay Pacific

		2023	2022	Change
		Six months ended 30th June		
Available tonne kilometres (ATK)	Million	9,628	3,094	+211.2%
Available seat kilometres (ASK)	Million	37,053	3,059	+1,111.3%
Available cargo tonne kilometres (AFTK)	Million	6,095	2,801	+117.6%
Revenue tonne kilometres (RTK)	Million	6,969	2,297	+203.4%
Passenger revenue per ASK	HK cents	67.5	67.6	-0.1%
Revenue passenger kilometres (RPK)	Million	32,308	1,810	+1,685.0%
Revenue passengers carried	'000	7,816	335	+2,233.1%
Passenger load factor	%	87.2	59.2	+28.0%pt
Passenger yield	HK cents	77.4	114.3	-32.3%
Cargo revenue per AFTK	HK\$	1.76	4.34	-59.4%
Cargo revenue tonne kilometres (RFTK)	Million	3,886	2,123	+83.0%
Cargo carried	'000 tonnes	651	526	+23.8%
Cargo load factor	%	63.8	75.8	-12.0%pt
Cargo yield	HK\$	2.76	5.72	-51.7%
Cost per ATK (with fuel) ^(c)	HK\$	3.35	5.88	-43.0%
Fuel consumption per million RTK	Barrels	1,689	1,772	-4.7%
Fuel consumption per million ATK	Barrels	1,222	1,316	-7.1%
Cost per ATK (without fuel) ^(c)	HK\$	2.34	5.19	-54.9%
Underlying ^(d) cost per ATK (without fuel)	HK\$	2.56	5.19	-50.7%
ATK per HK\$'000 staff cost	Unit	1,783	735	+142.6%
ATK per employee	'000	569	191	+197.9%
Aircraft utilisation (including parked aircraft)	Hours per day	6.7	2.2	+204.5%
On-time performance	%	79.7	82.9	-3.2%pt
Average age of fleet	Years	11.0	11.3	-0.3 years

(a) Net borrowings and the net debt/equity ratio excluding leases without asset transfer components are HK\$32,143 million and 0.50 respectively (31st December 2022: HK\$45,064 million and 0.71). Further details can be found in note 13 to the Condensed Financial Statements.

(b) Ordinary shareholders' funds are arrived at after deducting preference share capital of HK\$19,500 million and unpaid cumulative dividends attributable to the preference shareholder of HK\$223 million as at 30th June 2023 (31st December 2022: HK\$1,438 million).

(c) Cost per ATK represents total operating costs over ATK for the period.

(d) Underlying costs exclude non-recurring items.

Fleet Profile^(a)

Aircraft type	Number at 30th June 2023				Average age	Orders ^(c)				Expiry of operating leases ^(b)					
	Owned	Leased ^(b)		Total		'23	'24	'25 and beyond	Total	'23	'24	'25	'26	'27	'28 and beyond
		Finance	Operating												
Cathay Pacific:															
A320-200	4 ^(d)			4	19.8										
A321-200	2			2	19.7										
A321-200neo	4	3	5	12	1.2		4		4					5	
A330-300	35	4	4	43	14.8						2	2			
A350-900	19	7	2	28	5.6	2 ^(e)			2					2	
A350-1000	11	7		18	3.6										
747-400ERF	6			6	14.5										
747-8F	8	6		14	10.4										
777-300	17			17	21.7										
777-300ER	30		9	39	10.6					3	2	4			
777-9								21	21						
Total	136	27	20	183	11.0	2	4	21	27	3	4	6		7	
HK Express:															
A320-200			5	5	11.0					1	4				
A320-200neo			10	10	4.3									10	
A321-200			11	11	5.7						1	2		8	
A321-200neo		1 ^(f)		1	0.3	3	8	4	15						
Total		1	26	27	6.0	3	8	4	15	1	4	1	2	18	
Air Hong Kong^{(g)(h)}:															
A300-600F			8	8	18.2					2	6				
A330-243F			2	2	11.5							2			
A330-300P2F			5	5	13.3							3		2	
Total			15	15	15.7					2	6		5	2	
Grand total	136	28	61	225	10.7	5	12	25	42	3	13	5	13	27	

(a) The table does not reflect aircraft movements after 30th June 2023.

(b) Leases previously classified as operating leases are accounted for in a similar manner to finance leases under accounting standards. The majority of operating leases in the above table are within the scope of HKFRS 16.

(c) Cathay Pacific took delivery of five new aircraft and HK Express took delivery of one new aircraft in the first six months of 2023. The Group anticipates it will take delivery of a further five new aircraft in the second half of 2023. The Group believes that based on its available unrestricted liquidity as at 30th June 2023, as well as its ready access to both loan and debt capital markets, it will have sufficient financing capacity to fund this material investment in our fleet.

(d) One Airbus A320-200 aircraft was transferred to HK Express in August 2023.

(e) One Airbus A350-900 aircraft was delivered in July 2023.

(f) The aircraft is finance leased by Cathay Pacific and sub-leased to HK Express.

(g) The contractual arrangements relating to the freighters operated by Air Hong Kong do not constitute leases in accordance with HKFRS 16.

(h) We plan to return the eight A300-600F between 2023 and 2024 and to have them replaced with eight second-hand A330F. This allows the Air Hong Kong fleet to remain the same (at 15) at least until 2024.

CHAIR'S STATEMENT

The first half of 2023 has been a positive period for the Cathay Group, as we worked to rebuild connectivity at the Hong Kong international aviation hub following the full reopening of borders in Hong Kong and in the Chinese Mainland. As Hong Kong's home carrier, our focus has been on adding more flights and more destinations to cater to the growing demand for travel, and we have been making good progress in these efforts.

We reached 50% of pre-pandemic Group passenger flight capacity levels covering 70 destinations in March, and we have continued to increase our passenger capacity since. Furthermore, as the belly capacity from our passenger operations has grown, we also have been able to offer more choices for our cargo customers. Consequently, we have seen a trend of continued improvement in the performance of our airlines.

The Cathay Group, including airlines, subsidiaries and associates, reported an attributable profit of HK\$4,268 million in the first half of 2023 (2022 first half: loss of HK\$4,999 million). The profit included a one-off non-cash gain of HK\$1.9 billion. The earnings per ordinary share in the first half of 2023 were HK61.5 cents (2022 first half: loss per ordinary share of HK82.3 cents).

Our airlines and subsidiaries, excluding exceptional items, reported an attributable profit of HK\$4,763 million in the first half of 2023 (2022 first half: loss of HK\$2,516 million). Meanwhile, the results from associates, the majority of which are recognised three months in arrears, reflected an attributable loss of HK\$2,632 million (2022 first half: loss of HK\$2,483 million).

Business performance of Cathay Pacific

In the first half of 2023, Cathay Pacific's passenger revenue increased by 1,109.5% to HK\$25,013 million compared with the same period in 2022. Passenger flight capacity, measured in available seat kilometres (ASKs), increased by 1,111.3%, while traffic, measured in revenue passenger kilometres (RPKs), increased by 1,685.0%. The airline carried a total of 7.8 million passengers in the first half of 2023, an average of 43,184 per day, which was 2,233.1% more than in the first half of 2022. Load factor was 87.2% compared with 59.2% in the first half of 2022.

Cargo revenue in the first half of 2023 decreased by 11.6% to HK\$10,741 million compared with the same period in 2022, reflecting a weaker global market for air cargo. Capacity, measured in available cargo tonne kilometres (AFTKs), increased by 117.6%. Traffic, measured in cargo revenue tonne kilometres (RFTKs), increased by 83.0%. Total tonnage increased by 23.8% to 651 thousand tonnes. Load factor was 63.8% compared with 75.8% in the first half of 2022, and yield decreased by 51.7% to HK\$2.76.

The Group recognised a one-off non-cash gain of HK\$1.9 billion, in the first half of 2023 as a result of a dilution of our interest in Air China following the completion of their A-shares offering in January.

Our costs increased from operating more flights. Non-fuel costs for the first half of 2023 increased by 53.5% to HK\$24,639 million compared with the same period in 2022. Total fuel costs for Cathay Pacific (before the effect of fuel hedging) increased by HK\$6,085 million (or 147.8%) compared with the first half of 2022.

As we added more flights, we also enriched our customer experience offering, including reopening many of our lounges, resuming First class on selected flights and introducing a new premium dining offering. These are enhancements we know our customers greatly value.

Business performance of subsidiaries and associates

HK Express reported a profit of HK\$333 million for the first half of 2023 (2022 first half: loss of HK\$824 million). The airline benefitted from robust travel demand, especially for short-haul destinations in Asia, and in April it returned to pre-pandemic flight frequency levels with more than 420 flights per week.

Air Hong Kong reported a profit of HK\$402 million for the first half of 2023 (2022 first half: profit of HK\$383 million). Its results have been consistently solid and stable.

While the businesses of our airline services subsidiaries improved in the first half of 2023 compared with the same period in 2022, the financial performance of some subsidiaries declined despite higher volumes due to high interest expenses.

Losses from associates increased compared with the first half of 2022. The losses were mainly caused by the impact of COVID-19 in the fourth quarter of 2022, which are reflected in our first half results, being reported three months in arrears.

Financial position

The Group has been operating cash generative so far in 2023 and our available unrestricted liquidity balance was HK\$28.9 billion as at 30th June 2023.

On 6th June, we announced that we would not need to utilise the HK\$7.8 billion bridge loan facility extended to us by the Hong Kong SAR (HKSAR) Government before it expired on 8th June 2023.

The Group paid the deferred dividend of HK\$1,524 million on the preference shares held by the Hong Kong SAR (HKSAR) Government on 30th June 2023, bringing our dividend payments up to date. The Group intends to pay all future preference share dividends as they fall due.

We are extremely grateful to the Government and to our shareholders for their continued support during and after the pandemic.

Prospects

While we are still only part way along our rebuilding journey, our results for the first six months of 2023 demonstrate that we are on the right track. Further demonstrating this, the Group plans to buy back 50% of the preference shares before the end of 2023 at a redemption price of over HK\$9.75 billion, and the remainder by the end of July 2024, subject to completion of the proposed capital reduction and its business conditions at the relevant time.

Building back connectivity at the Hong Kong international aviation hub remains our primary focus. We are on track to achieve our target of 70% pre-pandemic passenger flight capacity levels covering 80 destinations by the end of 2023, and we are confident of reaching 100% by the end of 2024.

While we are pleased to be back in the top 10 of the world's best airlines in renowned industry rankings, we recognise there have been challenges across the aviation industry that have hindered our ability to deliver the highest service levels that our customers expect. We remain committed to investing in Cathay to provide a better experience for our customers, and we look forward to introducing more new cabin products in the near future.

In terms of our cargo business, we expect it will continue to moderate compared with the exceptional levels of the past three years. Nevertheless, we anticipate a continued solid performance throughout the second half of 2023 with some tonnage improvements towards the end of the third quarter as we enter the traditional peak period.

Our confidence in the long-term future of the Hong Kong international aviation hub with Cathay at its centre remains resolute. The Hong Kong hub has an important role to play in the overall development of the country under the National 14th Five-Year Plan. The Three-Runway System becoming fully operational at Hong Kong International Airport by the end of 2024 and the huge potential of the GBA as our extended home market give us great optimism for the future. We will also continue to support promotional campaigns and mega events that put Hong Kong on the world stage and attract visitors to discover our home city.

CHAIR'S STATEMENT

Appreciation

On behalf of Cathay, I would like to thank all of our customers for their ongoing support as we work to increase and enhance the services we provide to them. It has been fantastic to welcome so many customers back onto our flights over the past half year, and we look forward to continuing to see even more of them in the months and years ahead.

I would also like to extend my most sincere gratitude to all of our people. They have endured incredible challenges over the past few years, but their enthusiasm, drive and can-do spirit have been instrumental to the considerable progress we have already made in our journey of rebuilding Cathay. We have already announced a special appreciation reward of up to six weeks of eligible pay, which was well received, and a new profit-sharing scheme for our people will also be introduced for the years 2023-2025.

While we still have more to do as we rebuild a better Cathay, we are on the right track. Our commitment to contributing to Hong Kong's continued development remains resolute as we strive to achieve our vision of becoming one of the world's greatest service brands.

Patrick Healy

Chair

Hong Kong, 9th August 2023

REVIEW OF OPERATIONS

2023 has been a positive first half with this being a period of progressive improvement for the Cathay Group and the Hong Kong international aviation hub. Travel sentiment has been very positive now that the world has moved past the COVID-19 pandemic and borders have reopened across the globe.

As Hong Kong's home carrier, our focus has been on reconnecting our home hub by progressively increasing our capacity, growing our schedules and adding back more destinations to our network. In March, as planned, we achieved our target of operating 50% pre-pandemic passenger flight capacity covering 70 destinations as a Group. We continued to add more capacity into the peak summer season, and across the first six months we carried 9.6 million passengers in total as a Group.

As we grew our passenger network, we were also able to offer more options for our cargo customers with the added belly capacity.

Premium Travel

Cathay Pacific passenger services

Premium Travel services are provided by Cathay Pacific, the Group's full-service airline and the home carrier of Hong Kong.

Passenger revenue increased by 1,109.5% to HK\$25,013 million in the first half of 2023 compared with the same period in 2022, while revenue passenger kilometre (RPK) traffic increased by 1,685.0%. Cathay Pacific carried 7.8 million passengers in the first half of 2023, an average of 43,184 passengers per day and 2,233.1% more than in the first half of 2022. Capacity, measured in available seat kilometres (ASK), increased by 1,111.3%. Load factor increased by 28.0 percentage points to 87.2%, while yield decreased by 32.3% to HK77.4 cents.

The first half of 2023 has been a period of continued improvement for our travel business following the full reopening of Hong Kong late last year and the Chinese Mainland early this year. We witnessed a steady increase in

passenger numbers and high load factors during the first six months of the year. We progressively increased our passenger flight capacity as we operated more flights to more destinations for our customers.

We were excited to support the "World of Winners" Ticket Offers campaign, sponsored by Hong Kong International Airport (HKIA), to welcome travellers from around the globe to visit our home city. We distributed round-trip tickets from places across our network to Hong Kong, as well as from Hong Kong and the Greater Bay Area (via the Hong Kong hub) to destinations in our network, in phases from March to July. The overall response from customers has been very encouraging.

We also continued to enhance our customer experience proposition with the return of First class service on selected routes, the reopening of the majority of our global lounges, and the introduction of a new premium dining offering.

Available seat kilometres (ASK), load factor and yield change by region for Cathay Pacific passenger services for the first half of 2023 were as follows:

	ASK (million)			Load factor (%)			Yield
	2023	2022	Change	2023	2022	Change	Change
Americas	8,983	936	+859.7%	94.8	72.7	+22.1%pt	-21.3%
Europe	8,807	774	+1,037.9%	92.4	76.6	+15.8%pt	-37.4%
North Asia	7,179	594	+1,108.6%	78.3	27.7	+50.6%pt	-52.9%
Southeast Asia	5,203	207	+2,413.5%	82.1	49.4	+32.7%pt	-40.2%
Southwest Pacific	5,097	480	+961.9%	83.8	50.9	+32.9%pt	-39.2%
South Asia, Middle East and Africa	1,784	68	+2,523.5%	83.2	38.8	+44.4%pt	-31.4%
Overall	37,053	3,059	+1,111.3%	87.2	59.2	+28.0%pt	-32.3%

Markets

Home market – Hong Kong and Greater Bay Area

- We reopened our popular Hong Kong International Airport lounges – The Deck in February and The Wing, Business in March.
- We introduced new additions to our “Hong Kong Flavours” inflight dining concept with new First and Business class menus that celebrate Hong Kong’s culinary heritage together with Michelin-starred local restaurant Duddell’s. The menus are available on selected flights departing from Hong Kong.

Americas

- We resumed First class services on selected Los Angeles flights from March onwards.
- We announced the resumption of our Chicago service from 3rd October with three return flights per week, further expanding our connectivity with North America.
- We reopened our Vancouver airport lounge in June.
- At 30th June 2023, we were operating flights serving six destinations in the Americas.

Europe

- We progressively increased flight frequencies on a number of our Europe routes. Notably, as of April, our popular London Heathrow service has returned to up to five return flights a day.
- At 30th June 2023, we were operating flights serving nine destinations in Europe.

North Asia

- Quarantine-free travel between Hong Kong and the Chinese Mainland resumed on 8th January. Demand for flights to and from the Chinese Mainland remained strong throughout the first half of the year. This included traffic to and from Hong Kong, and transit traffic via the Hong Kong hub. We continued to progressively add more flights and destinations serving the Chinese Mainland.

- Our passenger flights serving Japan, South Korea and the Taiwan region were impacted by travel restrictions in those places in the first few months of 2023. In particular, the Japanese government mandated a limit on the maximum number of flights each carrier could operate from Hong Kong to Japan. The lifting of travel restrictions in these places were welcome developments, and we saw positive demand from customers afterwards.
- We resumed operating flights to Xi’an in January; Wenzhou in February; Shanghai (Hongqiao), Haikou and Nagoya in March.
- We reopened our Tokyo (Narita) airport lounge in a new location in February, and our Beijing airport lounge in March.
- We resumed First class services on selected Beijing flights from March onwards.
- Leading up to the peak summer months, we progressively added more flights to and from Japan, a very popular market. We operated more than 100 return flights per week to six airports in five cities in Japan in June.
- We resumed our popular non-stop flights between Taipei and Tokyo (Narita) in May, and between Taipei and Osaka in June.
- At 30th June 2023, we were operating flights serving 25 destinations in North Asia.

Southeast Asia

- We resumed operating flights to Phuket in January.
- We reopened our Singapore airport lounge in February, and our Bangkok and Manila airport lounges in March.
- We saw a surge in demand from Indonesia in mid-April, coinciding with the end of Ramadan, and we added more flights for our customers accordingly.
- At 30th June 2023, we were operating flights serving 13 destinations in Southeast Asia.

Southwest Pacific

- We announced the resumption of our seasonal Christchurch service from 16th December – our first seasonal route to be reinstated since the pandemic.
- At 30th June 2023, we were operating flights serving five destinations in the Southwest Pacific.

South Asia, Middle East and Africa

- We announced the resumption of our Johannesburg service from 1st August with three return flights per week, once again connecting Hong Kong with Africa.
- At 30th June 2023, we were operating flights serving six destinations in South Asia, the Middle East and Africa.

Awards

- In April, Cathay Pacific was named Airline of the Year 2022 at the Incheon Airport Awards hosted by Incheon International Airport Corporation in South Korea. Cathay Pacific was awarded for its high standards in the areas of safety culture, convenient check-in, punctuality, baggage handling, smart service (self-check-in), and recovery from COVID-19.
- Cathay Pacific received three awards at the 11th Flyers Preferred Award Ceremony 2023, organised by CAAC Inflight Magazine and FlyerT, the Chinese Mainland's biggest frequent-flyer member social platform. Cathay Pacific was named "Best Regional & International Airline", "Best Frequent Flyer Programme", and "Best Co-Brand Credit Card with Citic".
- Cathay Pacific returned to being in the Top 10 of AirlineRatings.com's Top Twenty Five Airlines in the World for 2023, ranking number nine overall.
- We were proud to be awarded World's Best Inflight Entertainment at the prestigious 2023 World Airline Awards organised by Skytrax as voted on by our customers. We also returned to the Top 10 in the World's Best Airlines category, ranking number eight overall.

- In June, Cathay received 12 distinguished honours at the 2022 Customer Service Excellence Awards from the Hong Kong Association for Customer Service Excellence (HKACE). This included the highest recognition, the Grand Award, which recognises accomplishments in all areas of customer service, as well as excellence in service delivery and implementation.
- Cathay Pacific won the First Class Bedding Set category at the TravelPlus Airline Amenity Awards 2023. The airline's plush First class bedding is part of a collaboration with luxury UK lifestyle brand Bamford.

Cargo

Cathay cargo services

The Group's cargo services are provided by Cathay Cargo.

Cargo revenue in the first half of 2023 was HK\$10,741 million, a decrease of 11.6% compared with the first half of 2022, reflecting a weaker global market for air cargo. Capacity, measured in available cargo tonne kilometres (AFTK), increased by 117.6% in the first half of 2023 compared with the same period in 2022. Cargo revenue tonne kilometres (RFTK) traffic increased by 83.0%. Total tonnage increased by 23.8% to 651 thousand tonnes. Cargo yield decreased 51.7% to HK\$2.76, while load factor averaged 63.8% (2022 first half: 75.8%).

As belly capacity from our passenger operations grew, we were able to offer more choices to our customers. We also saw good demand for our specialist cargo solutions across the expanding network. We continued to adjust our freighter network in an agile manner to reflect the demand picture as well as significant changes in trade flows and business opportunities.

Cargo load factor normalised, although yields maintained levels above the first-half periods for 2019 and 2020, but were significantly down on the exceptional levels seen during the pandemic years. Overall demand for high-tech consumer products in the first half of the year was flat due to elevated inventory levels, while e-commerce has been the bright spot keeping cargo volumes up.

REVIEW OF OPERATIONS

Available cargo tonne kilometres (AFTK), load factor and yield change for the first half of 2023 were as follows:

	AFTK (million)			Load factor (%)			Yield
	2023	2022	Change	2023	2022	Change	Change
Cathay Pacific	6,095	2,801	+117.6%	63.8	75.8	-12.0%pt	-51.7%

- The reopening of borders in the Chinese Mainland early in the year was a positive development, which led to more cross-border trucking services.
- Cathay Cargo and the Cathay Cargo Terminal were the first carrier and cargo terminal operator, respectively, to utilise the Hong Kong International Airport (HKIA) Logistics Park in Dongguan. This enables us to offer our customers seamless sea-air shipments from the GBA directly into HKIA for outbound airfreight.
- We announced the launch of Cathay Cargo, a rebrand of our cargo business, in February. The change aligns Cathay Cargo with the same purpose, vision and values of our master brand, Cathay, and all of our subsidiary brands. Cathay Cargo launched its new brand campaign, "We Know How", in June showcasing the expertise of our people and the technology we use to provide our industry-leading service. We also unveiled our first freighter bearing the new Cathay Cargo livery.
- Cathay Cargo enhanced its integrated mail platform with Cathay Mail, a refined digital solution that re-envisages the mail-shipment process. Cathay Mail provides a superior customer experience that better caters to the requirements of post offices for shipment visibility, reliability and speed.
- In March 2023, Hong Kong International Airport was once again named the busiest cargo airport in the world in 2022. We are very proud to have contributed to this achievement as the city's home carrier and we remain committed to rebuilding the Hong Kong international aviation hub.
- Cathay Cargo was announced as the host of the 2024 edition of the World Cargo Symposium (WCS), organised by the International Air Transport Association (IATA), which will take place from 12th-14th March in Hong Kong.
- We upgraded our online cargo booking platform, Click & Ship, to provide an enhanced customer experience. The platform now enables customers to make a series of bookings – up to 16 – in one go, rather than making individual bookings.
- Reflecting our continued investment in our special solutions, both Cathay Cargo and the Cathay Cargo Terminal obtained IATA Center of Excellence for Independent Validators (CEIV) Lithium Batteries certification in June. This further enhances our competence in the safe handling and carriage of lithium battery shipments by adhering to the highest industry standards.

Awards

- Cathay Cargo was named Cargo Airline of the Year at Air Transport World's (ATW) 49th Annual Airline Industry Achievement Awards.
- Cathay Cargo was named Sustainable Cargo Airline of the Year – Asia at the Freightweek Sustainability Awards 2023.

Lifestyle

Cathay – a premium travel lifestyle brand

Cathay is our new master brand, which represents much more than airline travel. It represents our evolution into a premium travel lifestyle brand, consisting of a host of complementary categories – flights, holidays, shopping, dining, wellness and payment. Cathay Pacific remains the brand of our airline and proudly so.

Our purpose is to move people forward in life. This means that we are aiming to enrich the lives of our customers, and to add value to society in Hong Kong and the Chinese Mainland through our products and services. We have a renewed focus on the customer. To help us make progress in fulfilling our purpose, we have set ourselves the vision to become one of the world's greatest service brands.

- We transitioned our online Cathay Shop from a purely miles-redemption platform to an e-commerce site. Customers can now pay in cash and enjoy more benefits, including earning up to one mile for every HK\$3 spent.
 - We introduced our fully re-envisioned travel lifestyle publication, Cathay, bringing our customers inspirational content whether they are in the air or on the ground. The magazine exemplifies Cathay's evolution into a premium travel lifestyle brand, with sections dedicated to our home hub of Hong Kong and the Greater Bay Area, as well as travel and holidays, wellness, dining and shopping.
 - We launched our Cathay x Start From Zero Range, which includes an exquisite mah-jong set and a special-edition upcycled galley container, both made from recycled wood. The range was one of our Cathay Exclusive Collections and was done in partnership with Hong Kong-based woodwork atelier Start From Zero.
 - We have put continuous effort into building awareness of our dining pillar, and encouraging our members to earn and burn miles at our partner restaurants. We implemented an enhanced earn rate of HK\$2=1 mile for members and HK\$4=3 miles for members who are Standard Chartered Cathay Credit Card holders, enabling them to earn more miles per dollar spent at our partner restaurants. Following the change, we saw a steady rise in the number of sales.
 - We introduced two new health insurance products, the Cigna VHIS Series and Cigna Plus Medical Plan, as part of our strategic wellness and insurance collaboration with Cigna Hong Kong. With these new products, we offer customers a full range of health insurance products to suit the various needs of our members that enable them to earn miles while also enjoying comprehensive protection.
- We saw continuous growth in the active member base of our Cathay app and wellness journey following a series of wellness challenges and campaigns.

Elevated membership programme

Cathay is a lifelong membership that ignites inspiration in members' everyday lives, whether they are on the ground or in the air. We bring our members an incredible variety of meaningful experiences, exciting offers and unmissable rewards.

- We work with more than 800 premium lifestyle and travel partners to bring our members an ever expanding list of experiences, dining and lifestyle offers.
- All members are entitled to priority online check-in. Cathay Silver members (and above) have unlimited access to lounges when flying on Cathay Pacific.
- Status Points are the key to levelling up membership status and accessing more exclusive benefits. Members can renew or upgrade their status by spending with selected co-branded credit cards (available in Hong Kong) or by simply flying with Cathay Pacific or our partner airlines. Status Points are earned by reference to airline, cabin fare class and distance travelled.
- Asia Miles is the currency members earn and spend on a huge range of rewards. Eligible members can earn more miles faster, and can spend miles at better rates when using Miles Plus Cash for flights, dining and shopping with Cathay.
- We launched our "Blink to Earn" social media campaign that enabled Cathay members to earn up to 400 miles by posting an Instagram Story using our "Blink to Earn" Instagram filter.
- There was a 627.5% increase in redemptions by Asia Miles members on Cathay Pacific flights in the first half of 2023 compared with the same period last year, while redemptions for non-flight-related channels decreased by 41.2%.

Awards

- In April, our Cathay membership programme was recognised as one of the outstanding campaigns to attract, retain and appreciate members at the Loyalty & Engagement Awards ceremony hosted Marketing-Interactive in Hong Kong. Cathay was awarded silver in “Best Loyalty Campaign” and “Best Loyalty Programme – Lifestyle, Travel and Entertainment” and bronze in “Best Loyalty Campaign – Launch/Rebranding” and “Best Membership Programme”.

Review of Key Subsidiaries and Associates

Low-Cost Travel

Hong Kong Express Airways Limited (“HK Express”)

- Low-Cost Travel services are provided by HK Express, Hong Kong’s only low-cost carrier, focusing on serving leisure travel destinations.
- At 30th June 2023, HK Express was operating scheduled flight services serving 20 destinations, including Taipei, Kaohsiung and Hanoi.
- At 30th June 2023, HK Express had an all-Airbus narrowbody fleet of 27 aircraft, including five Airbus A320-200 aircraft, 11 A321-200 aircraft, 10 A320-200neo aircraft and one A321-200neo aircraft. The young fleet had an average age of six years.
- In the first half of 2023, HK Express took delivery of its first Airbus A321-200neo aircraft. This aircraft forms part of an order previously allocated to Cathay Dragon for 16 A321-200neo aircraft, which is the most fuel efficient of its type.
- The modern fleet enables HK Express to leverage new opportunities within the region and help strengthen Hong Kong’s position as Asia’s leading international aviation hub.
- In the first half of 2023, flight capacity amounted to 4,054 million available seat kilometres, reflecting the airline’s substantially increased capacity following the reopening of borders in Hong Kong, the Chinese Mainland and the Asia region.
- In April, HK Express returned to pre-pandemic passenger flight frequency levels, with more than 420 flights per week. At 30th June 2023, it was operating more than 470 flights per week, exceeding pre-pandemic levels.
- The average flown load factor in the first half of 2023 was 85.5%, an increase of 67.0 percentage points compared with the first half of 2022.

	Six months ended 30th June	
	2023 HK\$M	2022 HK\$M
Revenue		
Passenger services*	2,550	18
Cargo services	9	2
Other services and recoveries*	41	14
Total revenue	2,600	34
Expenses		
Staff	(326)	(185)
Inflight service and passenger expenses	(20)	(1)
Landing, parking and route expenses	(365)	(21)
Fuel	(460)	(10)
Aircraft maintenance	(254)	(102)
Aircraft depreciation and rentals	(391)	(355)
Other depreciation, amortisation and rentals	(18)	(13)
Others	(218)	(117)
Operating expenses	(2,052)	(804)
Net finance charges	(178)	(195)
Total operating expenses	(2,230)	(999)
Profit/(loss) before impairment and related charges and taxation	370	(965)
Taxation	(37)	141
Profit/(loss) after taxation	333	(824)

* A portion of ancillary revenue used to calculate ancillary penetration for HK Express is captured under "Passenger services revenue" in alignment with the Group's presentation of revenue in accordance with HKFRS 15.

		Six months ended 30th June	
		2023	2022
Operating Statistics – HK Express			
Available seat kilometres (ASK)	Million	4,054	69
Passenger revenue per ASK	HK cents	62.9	25.9
Revenue passenger kilometres (RPK)	Million	3,465	13
Revenue passengers carried	'000	1,743	9
Passenger load factor	%	85.5	18.5
Passenger yield	HK cents	73.6	140.1
Cost per ASK (with fuel)	HK cents	55.9	1,163.9
Fuel consumption per million ASK	Barrels	142	125
Fuel consumption per million RPK	Barrels	167	676
Cost per ASK (without fuel)	HK cents	44.6	1,149.4
ASK per HK\$'000 staff cost	Unit	12,451	374
ASK per employee	'000	4,095	74
Aircraft utilisation	Hours per day	6.8	0.14
On-time performance	%	91.1	96.9
Average age of fleet	Years	6.0	5.2

REVIEW OF OPERATIONS

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

- Air Hong Kong principally operates express cargo services for DHL Express.
- At 30th June 2023, Air Hong Kong had eight dry-leased Airbus A300-600F freighters, two dry-leased A330-243F freighters and five dry-leased A330-300P2F converted freighters.
- Air Hong Kong operated scheduled and charter flights to 15 major cities in Asia and the Middle East, including Bahrain, Bangkok, Beijing, Cebu (via Manila), Chengdu, Ho Chi Minh City, Nagoya, Osaka, Penang, Seoul, Shanghai, Singapore, Taipei and Tokyo.
- In the first half of 2023, flight capacity (in terms of available cargo tonne kilometres) increased by 2.0% to 437 million compared with the first half of 2022.
- On-time performance decreased by 6.4 percentage points to 85.5% in the first half of 2023.
- Air Hong Kong recorded an increase in profit in the first half of 2023 compared with the same period in 2022.

Principal Airline Services Subsidiaries

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 45 international airlines in Hong Kong. It produced 8.8 million airline meals and handled 18,515 flights in the first half of 2023, representing a daily average of 47,334 meals and 102 flights, an increase of 1,114% and 201%, respectively, from the same period in 2022.
- The financial results of CPCS in the first half of 2023 improved compared with the first half of 2022.
- The financial results of flight kitchens outside Hong Kong in the first half of 2023 improved compared with the same period in 2022, with the exception of Canada, which reported a period-on-period decline.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, manages and operates the Cathay Cargo Terminal (CCT) at Hong Kong International Airport (HKIA). As at 30th June 2023, CPSL provided cargo-handling services for the Cathay Group and 16 other scheduled airlines, excluding chartered customers.
- CPSL handled 661 thousand tonnes of cargo in the first half of 2023, an increase of 19% compared with the first half of 2022.
- The financial results in the first half of 2023 declined compared with the same period in 2022.
- The Cathay Cargo Terminal was the first cargo terminal operator to utilise the HKIA Logistics Park in Dongguan. This enables the Group to offer our customers seamless sea-air shipments from the Greater Bay Area (GBA) directly into HKIA for outbound airfreight. CPSL established its own upstream bonded facility – Cathay Cargo Terminal Dongguan – located at the Bestar Logistics Centre in Dongguan.
- To align with the Cathay Group's overarching brand redesign and the rebranding of Cathay Cargo, our new marketing brand – Cathay Cargo Terminal – was launched in April 2023.
- Reflecting our continued investment in our special solutions, both Cathay Cargo and the Cathay Cargo Terminal obtained IATA Center of Excellence for Independent Validators (CEIV) Lithium Batteries certification in the second quarter. This further enhances our competence in the safe handling and carriage of lithium battery shipments by adhering to the highest industry standards.
- Cathay Cargo Terminal also obtained IATA certification for providing Competency-Based Training and Assessment for Dangerous Goods in April 2023.

Hong Kong Airport Services Limited (“HAS”)

- HAS, a wholly owned subsidiary, provides ramp- and passenger-handling services at Hong Kong International Airport. As at 30th June 2023, it provided ground-handling services to 19 airlines, including Cathay Pacific and HK Express.
- In the first half of 2023, HAS had 45% and 17% market shares in ramp- and passenger-handling businesses, respectively, at Hong Kong International Airport. The number of flights handled under both ramp- and passenger-handling businesses increased by 153% and 817% against the same period in 2022.
- The financial results for the first half of 2023 improved compared with the first half of 2022.
- In the first half of 2023, HAS continued to meet and exceed the Critical Key Performance Indicators set by the Airport Authority Hong Kong. Recognising HAS's efforts in promoting occupational health and safety practices, HAS received the Merit Award in the 2022/23 Airport Safety Excellence Scheme. HAS was also awarded the Outstanding Award in the Joyful@Healthy Workplace Best Practices Award under the Occupational Safety and Health Council (OSHC).

Vogue Laundry Service Limited (“VLS”)

- VLS, a wholly owned subsidiary, provides a comprehensive range of professional services in laundry and dry cleaning of commercial linen, uniform and guest garments.
- It operates a commercial laundry plant in Yuen Long Industrial Park and runs six valet shops in Hong Kong serving retail customers.
- VLS processed 28 million items of laundry in the first half of 2023 compared with 12 million items in the first half of 2022. The financial results for the first half of 2023 declined compared with the same period in 2022.

Principal Associates

Air China Limited (“Air China”)

- Air China, in which the Cathay Group had a 16.26% interest at 30th June 2023, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in the Chinese Mainland. We are represented on the Board of Directors of Air China and equity account for our share of Air China's results.
- Our share of Air China's results is based on its financial statements drawn up three months in arrears. Consequently, our 2023 interim results include Air China's results for the six months ended 31st March 2023.
- On 16th January 2023, the Group's interest in Air China was diluted from 18.13% to 16.26% as a result of Air China issuing 1,676 million new A shares to investors with proceeds of the issuance totalling RMB15 billion. Notwithstanding the dilution, the Group continues to have significant influence over Air China and has continued to equity account for its interest in Air China as an associate. This was accounted for as a deemed partial disposal of our interest in Air China and a gain of HK\$1,929 million was recorded, principally reflecting the change in the Group's share of net assets in Air China immediately before and after the share issuance.
- For the six months ended 31st March 2023, Air China's financial results improved compared to those for the six months ended 31st March 2022.
- At 30th June 2023, the net book value and market value of the 2,634 million shares of Air China held by the Cathay Group was HK\$9,225 million (constituting 5% of Cathay Group's total assets) and HK\$14,696 million respectively.
- No dividend was received from Air China during the period.
- Additional information on Air China, including its performance and prospects, can be found in its 2022 Annual Report.

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

- Air China Cargo, in which the Cathay Group owns an equity and economic interest totalling 24%, is the leading provider of air cargo services in the Chinese Mainland. It has its headquarters in Beijing. Its main operating base is in Shanghai Pudong.
- Our share of Air China Cargo's results is based on its financial statements drawn up three months in arrears. Our interim results include Air China Cargo's results for the six months ended 31st March 2023.

Cathay Pacific intends to continue to hold its significant investments for the foreseeable future.

Three Key Development Areas

A key part of our corporate strategy continues to be our three key development areas where we are especially focused on building new capabilities for the future. These three areas are making the GBA part of our extended home market, transforming into a digital leader, and becoming a leader in sustainability.

Greater Bay Area

Home to over 86 million people, the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) is one of the most populous regions in the world, and one of the fastest growing. Cathay's GBA vision is to become the leading premium airline of choice for international travel to and from the region.

Central to our GBA strategy is offering customers a seamless, hassle-free and differentiated connecting experience between cities within the GBA and Hong Kong International Airport (HKIA). We are committed to providing a wide range of reliable and convenient intermodal services, including air, sea and land options, for GBA travellers to connect with their Cathay Pacific flights at HKIA. This strategy of providing seamless intermodal transportation also extends to our cargo services.

- When travelling between cities within the GBA and HKIA, customers may enjoy effortless transfer via the airport's SkyPier using our codeshare ferry services with CKS. Guangzhou Pazhou Ferry Terminal was newly added to the network this April with a thrice-daily service that supplement our double daily flights connecting Guangzhou with the world via HKIA. As of today, ferry destinations from the SkyPier in operation include Shenzhen Shekou, Shenzhen Airport Ferry Terminal, Guangzhou Pazhou, Dongguan Humen, Zhongshan, and Macao Taipa. To further redefine premium travel experience for intermodal, a new Cathay Pacific lounge will open at Shenzhen Shekou Cruise Homeport this year. It's the first off-airport lounge for us and first of its kind in China.
- Leveraging the newly developed SkyPier Terminal, we will also be launching codeshare "Bus + Air" service for the first time on the Hong Kong-Zhuhai-Macao Bridge (HZMB). With this ground-breaking proposition, our customers travelling to and from the western GBA will enjoy great convenience with direct transfer via the airside of HKIA and dedicated check-in experience at HZMB-Zhuhai Port which is similar to that at the airport.
- Cathay Cargo and the Cathay Cargo Terminal were the first carrier and cargo terminal operator, respectively, to utilise the HKIA Logistics Park in Dongguan. This enables us to offer our customers seamless sea-air shipments from the GBA directly into HKIA for outbound airfreight. We established our own upstream bonded facility – Cathay Cargo Terminal Dongguan – located at the Bestar Logistics Centre.

Digital Leadership

Digital is one of Cathay's key strategic focus areas for delivering our vision of becoming one of the world's greatest service brands. We strive to transform Cathay into a digital leader famous for its strong digital culture and capabilities.

Our digital strategy is underpinned by our focus on customer centricity, and our strong desire to help move our customers forward in life. The framework for our digital strategy is built around data analytics, technological innovation and company-wide digital transformation, and we achieved remarkable successes in these areas.

- **Data analytics** – To support our continuous efforts in rebuilding our flight network, we have leveraged on our operational data and machine-learning technology to optimise our resource planning and operational reliability. This also enables us to continuously enhance our services for our customers across travel, lifestyle and cargo. To equip our people with analytics skills and capabilities, we launched the first pilot of a digital curriculum that is being progressively expanded to cover on-demand data and digital technology courses.
- **Technological innovation** – With the latest developments in generative artificial intelligence (AI), we have made progress in raising our people’s awareness of this technology, its implications for various industries, and best practices to adopt the technology in a responsible way. Meanwhile, small-scale experiments are underway for us to explore how generative AI can elevate the customer experience. We also innovate to enhance our people’s experience working in Cathay. For example, we introduced the Knowledge Hub, which helps our Customer Care team answer our customers’ inquiries more effectively. We also launched the first virtual-reality learning facility to enhance the learning experience for our inflight services team.
- **Digital transformation** – We are committed to supporting the development of tech talent in Hong Kong as part of our efforts to digitally transform our business. This year, we celebrated the tenth anniversary of our Digital and IT Graduate Trainee Programme, which continues to foster tech talent in our home city. In July, we partnered with the Hong Kong Competence Education Research Institute (HKCERI) and the Swift Coding Club to host the Hackathon @Cathay City for over 80 local primary and secondary school students who learnt to create their own mobile applications to present their ideas on sustainable travel.

Awards

Cathay’s continued success in digital transformation was recognised in industry awards.

- In April, we took home the 2023 MongoDB APAC Innovation Award for the category Industry Disruptor, which recognises businesses reinventing industries by transforming customer experiences through new technologies. We won with our Flight Folder project – a system designed to enhance the way pilots and crew interact with data before and during flight.
- In June, we won Gold for the category Best Graduate Training Programme at the Hong Kong edition of the 2023 Employee Experience Awards hosted by Human Resources Online for our Digital and IT Graduate Trainee Programme.

Sustainability Leadership

Cathay strives for sustainability leadership and collaboration with various stakeholders as we work towards achieving our sustainability goals, notably achieving net-zero carbon emissions by 2050. We endeavour to operate in a sustainable manner, embedding sustainable development principles and practices into all aspects of our business.

Environment

- Cathay Pacific has signed a Memorandum of Understanding (MoU) with the State Power Investment Corporation (SPIC) to drive further development of the Sustainable Aviation Fuel (SAF) supply chain in the Chinese Mainland. Through this strategic partnership, Cathay Pacific will share international experience and provide feedback on the SAF certification process, value chain and overall market know-how in support of SPIC’s establishment of four SAF plants in the Chinese Mainland.
- In June 2023, Cathay Pacific successfully uplifted blended SAF onto four of its cargo flights departing from Singapore Changi Airport to Hong Kong and Penang. This marks the first time that our commercial flights were refueled with SAF at an overseas airport.

REVIEW OF OPERATIONS

- In the first half of 2023, we secured additional sustainability-linked aircraft financing for four brand-new Airbus A321neo aircraft and set specific KPIs related to our climate performance.
- Cathay has launched “Greener Together” – a new theme for our sustainability communication platform – which reflects our determination to foster stronger partnerships to help drive the sustainable development agenda and build a more sustainable future with our customers, people and business partners.
- Following the successful reduction of 56% of our single-use plastic (SUP) usage on a per passenger level from the 2018 baseline, we are in the process of setting new SUP and waste-reduction targets.
- First launched in 2007, our long-standing voluntary carbon-offset programme, Fly Greener, has been integrated into the internet booking engine of our official website since June 2023. This allows passengers to offset their carbon footprint from air travel directly when making bookings for our flights. The programme has also been extended to our air cargo services last year. To date, we have purchased over 300,000 tonnes of CO₂ offsets.

Our people

- At 30th June 2023, the Cathay Group employed more than 21,900 people worldwide. Around 18,100 of these people are based in Hong Kong. Cathay Pacific itself employed around 16,900 permanent employees worldwide, with around 13,000 of these people based in Hong Kong.
- As we continue to rebuild, our focus remains on bringing in talent to support the business. With the Greater Bay Area (GBA) being our extended home market, we have access to an expanded talent pool and have begun recruiting for positions across various lines of business including Flight Attendants, Cadet Pilots and Graduate Trainees from the GBA.
- We enhanced our Early Careers Programme which includes Internships and Graduate Trainee Programmes for Engineering and IT & Digital, and expanded our scope to include Cargo and the GBA. The Graduate Trainee Programme for IT & Digital recently won Gold at the Human Resources Online’s Employee Experience Award.
- We launched the Career Development Programme to prepare our high performers for their next career step and to build a healthy and sustainable talent pipeline.
- Our travel benefit is one of Cathay’s signature employee benefits and to further enhance the employee experience, we launched a new employee travel platform to enable our employees to book their travel with the same seamless experience as our customers. We also updated our policy to enable new joiners for Hong Kong ground positions to enjoy annual leave and employee travel benefits from Day 1.
- We are committed to building an inclusive and supportive work environment for all of our people, regardless of their sex, sexual orientation, gender identity, disability, family status, marital status, race, nationality, ethnic origin or religion. We are very proud of our diverse workforce at Cathay Pacific which is what makes us unique in our ability to deliver great service to our customers. For the first time and as the first airline globally, Cathay is listed on the Bloomberg Gender-Equality Index in 2023. We also received the Bronze level accreditation in the Hong Kong Community Business LGBT+ Index.
- We continue to launch new Employee Resource Groups (ERGs) for cultural diversity and disability to build on our people-centred values by creating a workplace in which everyone feels respected, valued, and free to bring their whole selves to work. Early this year, we launched the OneCathay: Intercultural ERG for ethnic diversity and inclusion.
- We were awarded the Best Employer Brand and Diversity Champion by the LinkedIn Talent Awards in recognition of our remarkable adaptability, innovation and creativity in leading the future of work.

- We have set a new and more ambitious goal to not have more than 65% of the same gender in senior positions by 2025. Our new Executive Team from 1st April 2023 has achieved a 50/50 gender balance.
- 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.
- The Group's remuneration policies and bonus schemes are set out in the 2022 Annual Report. The Group has not adopted any share option scheme.
- Details of training schemes are set out in the Group's 2022 Sustainable Development Report.

Our community

- Cathay has supported the Hong Kong SAR Government's Strive and Rise Programme as part of our long-standing commitment to youth development in the community. Between December 2022 and March 2023, we invited about 1,600 participating students and mentors to our Aviation Exploration Days that included multiple visits to our airline facilities and those of the wider airport community.
- In May 2023, the Cathay Community Flight returned as the grand finale of the Strive and Rise Programme. The 90-minute flight on an Airbus A350-1000 aircraft was a special arrangement for students from low-income backgrounds to experience the joy of flying for the first time with their volunteer mentors.
- In February 2023, a 7.8-magnitude earthquake hit Turkey, causing widespread damage and resulting in tens of thousands of fatalities. After Hong Kong sent a 59-member team to assist with rescue efforts, Cathay Pacific operated a charter flight to safely bring the rescue team back home from Beijing.
- In the first half of 2023, we continued to work with different non-profit organisations, including Feeding Hong Kong, Food Angel and Foodlink Foundation, by making in-kind donations such as surplus food, eye masks and refurbished tablet computers to people in need.

Awards

- Cathay has received the Caring Company Logo from the Hong Kong Council of Social Service every year since 2003 in recognition of its good corporate citizenship.
- In March 2023, Cathay received the Innovative and Inspirational Initiative in Sustainable Tourism award at the 2023 Pacific Asia Travel Association (PATA) Awards in Paris for our commitment to reducing carbon emissions and using biofuels.
- In March, Cathay was awarded the Best Employer Brand and Diversity Champion awards at the LinkedIn Talent Awards in Hong Kong. The awards recognise companies leading the future of work by demonstrating remarkable adaptability, innovation and creativity.
- In May 2023, Cathay Cargo was named Sustainable Cargo Airline of the Year – Asia by Freightweek in recognition of our unwavering commitment to environmental sustainability and responsible operations.

Full details of Cathay Group's performance and commitment in sustainable development, including the areas of environmental, social and governance is addressed in its Sustainable Development Report 2022 which was published on 3rd April and is available on our website.

FINANCIAL REVIEW

The Cathay Group's attributable profit was HK\$4,268 million in the first half of 2023 (2022 first half: loss of HK\$4,999 million). Cathay Pacific reported a profit after tax of HK\$6,717 million in the first half of 2023 (2022 first half: loss of HK\$1,501 million). Profit from subsidiaries was HK\$183 million (2022 first half: loss of HK\$1,015 million), and the share of losses from associates was HK\$2,632 million (2022 first half: loss of HK\$2,483 million).

Revenue

	Group			Cathay Pacific		
	Six months ended 30th June			Six months ended 30th June		
	2023 HK\$M	2022 HK\$M	Change	2023 HK\$M	2022 HK\$M	Change
Passenger services	27,563	2,086	+1,221.3%	25,013	2,068	+1,109.5%
Cargo services	12,432	13,830	-10.1%	10,741	12,148	-11.6%
Other services and recoveries	3,598	2,635	+36.5%	3,519	2,425	+45.1%
Total revenue	43,593	18,551	+135.0%	39,273	16,641	+136.0%

Cathay Pacific passenger revenue increased by 1,109.5% compared with a 1,111.3% increase in capacity. Cargo revenue decreased by 11.6%, compared with a 117.6% increase in available freight tonne kilometres. Revenue from other services and recoveries increased by 45.1%.

Operating Expenses

	Group			Cathay Pacific		
	Six months ended 30th June			Six months ended 30th June		
	2023 HK\$M	2022 HK\$M	Change	2023 HK\$M	2022 HK\$M	Change
Staff	6,612	5,057	+30.7%	5,400	4,210	+28.3%
Inflight service and passenger expenses	1,244	166	+649.4%	1,225	166	+638.0%
Landing, parking and route expenses	5,066	2,305	+119.8%	4,536	2,091	+116.9%
Fuel, including hedging gains	10,635	2,630	+304.4%	9,744	2,129	+357.7%
Aircraft maintenance	3,253	1,414	+130.1%	2,751	1,093	+151.7%
Aircraft depreciation and rentals	5,043	4,966	+1.6%	4,673	4,613	+1.3%
Other depreciation, amortisation and rentals	1,305	1,221	+6.9%	943	877	+7.5%
Others	3,799	2,045	+85.8%	4,231	2,040	+107.4%
Operating expenses	36,957	19,804	+86.6%	33,503	17,219	+94.6%
Net finance charges	1,446	1,369	+5.6%	880	966	-8.9%
Total operating expenses	38,403	21,173	+81.4%	34,383	18,185	+89.1%

- The Group's and Cathay Pacific's total operating expenses increased by 81.4% and 89.1% respectively.
- The cost per ATK (with fuel) of Cathay Pacific decreased from HK\$5.88 to HK\$3.35, a decrease of 43.0%.
- The cost per ATK (without fuel) of Cathay Pacific decreased from HK\$5.19 to HK\$2.34, a decrease of 54.9%.
- The underlying cost per ATK (without fuel), which excludes non-recurring items, decreased from HK\$5.19 to HK\$2.56, a decrease of 50.7%.

Operating Results Analysis

	Six months ended 30th June		
	2023 HK\$M	2022 HK\$M	Change HK\$M
Cathay Pacific's profit/(loss) before exceptional items and taxation	4,890	(1,544)	+6,434
Taxation	(310)	43	-353
Cathay Pacific's profit/(loss) after taxation and before exceptional items	4,580	(1,501)	+6,081
Subsidiaries' results	183	(1,015)	+1,198
Cathay Pacific and subsidiaries' profit/(loss) after taxation and before exceptional items	4,763	(2,516)	+7,279
Share of losses from associates	(2,632)	(2,483)	-149
Adjusted profit/(loss) attributable to the shareholders of the Cathay Group (note 1)	2,131	(4,999)	+7,130
Gain on deemed partial disposal of an associate (note 2)	1,929	–	+1,929
Reversal of impairment (note 3)	208	–	+208
Profit/(loss) attributable to the shareholders of the Cathay Group	4,268	(4,999)	+9,267

Notes:

- 1) The adjusted profit/(loss) attributable to the shareholders of Cathay Pacific was arrived at after excluding non-recurring items.
- 2) Please refer note 4 to the Condensed Financial Statements for details.
- 3) Reversal of impairment of HK\$208 million under Cathay Pacific in connection with three previously impaired aircraft returning to service.

The movement in Cathay Pacific's profit/(loss) before non-recurring items can be analysed as follows:

	HK\$M	
2022 interim Cathay Pacific's loss before taxation	(1,544)	
Increase of revenue:		
– Passenger and cargo revenue	21,538	– Passenger revenue increased significantly following the full reopening of borders in Hong Kong and the Chinese Mainland. The increase in capacity and traffic was partially offset by a 32.3% reduction in yield. – Cargo revenue decreased due to a 51.7% decrease in yield. This was slightly offset by a 83.0% increase in cargo traffic.
– Other services and recoveries	1,094	– Increase due to higher passenger volumes and more air ticket redemptions, partially offset by a reduction in COVID-19 related government grants.
Increase of costs:		
– Staff	(1,190)	– Increased due to higher capacity operated and more headcount.
– Inflight service and passenger expenses	(1,059)	– Increased on higher passenger volumes.
– Landing, parking and route expenses	(2,445)	– Increased on operating additional capacity.
– Fuel, including hedging gains	(7,615)	– Increased fuel costs were mainly due to higher fuel consumption, partially offset by lower fuel hedging gains.
– Aircraft maintenance	(1,658)	– Higher due to increased aircraft flying hours.
– Owning the assets (includes aircraft and other depreciation, rentals and net finance charges)	(40)	– New aircraft deliveries and impact of interest rate increases.
– Other items	(2,191)	– Higher on increased operations.
2023 interim Cathay Pacific's profit before taxation	4,890	

Fuel Expenditure and Hedging

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

	Six months ended 30th June	
	2023 HK\$M	2022 HK\$M
Gross fuel cost	11,118	4,618
Fuel hedging gains	(483)	(1,988)
Net fuel cost	10,635	2,630

Fuel costs increased due to a 180.2% increase in consumption, slightly offset by 13.9% decrease in the average into-plane fuel price.

Financial Position

Financial position as at 30th June 2023. The comparative period references 31st December 2022.

- Additions to property, plant and equipment during the six months period to 30th June 2023 were HK\$3,201 million, comprising HK\$3,087 million in respect of aircraft and related equipment, HK\$54 million in respect of land and buildings and HK\$60 million in respect of other equipment.
- Borrowings (being loans and other borrowings, and lease liabilities) decreased by 10.9% to HK\$68,664 million. Excluding lease liabilities previously classified as operating leases, borrowings decreased by 11.2% to HK\$56,242 million, which are fully repayable by 2035, with 43.6% at fixed rates of interest after taking into account derivative transactions. Borrowings are predominately denominated in United States dollars and Hong Kong dollars and the maturity profile of these borrowings has not changed materially from the information set out in the 2022 Annual Report.
- Available unrestricted liquidity at 30th June 2023 totalled HK\$28,896 million, comprising liquid funds of HK\$24,099 million and committed undrawn facilities of HK\$4,913 million, less pledged funds of HK\$121 million. Liquid funds are predominately denominated in United States dollars and Hong Kong dollars.
- Net borrowings (after deducting liquid funds) decreased by 24.2% to HK\$44,565 million. Excluding lease liabilities previously classified as operating leases, net borrowings decreased by 28.7% to HK\$32,143 million.
- Funds attributable to the shareholders of Cathay Pacific (being ordinary shares, preference shares and reserves) increased by 1.0% to HK\$64,490 million. This was due to the Group's profit for the period of HK\$4,268 million, partially offset by a decrease in other comprehensive income of HK\$2,132 million and dividends distributed to the preference shareholder of HK\$1,524 million.
- Excluding lease liabilities previously classified as operating leases, the net debt/equity ratio decreased from 0.71 times to 0.50 times (against borrowing covenants of 2.0). Taking into account the effect of adopting HKFRS 16 on net borrowings, the net debt/equity ratio was 0.69 and 0.92 times at 30th June 2023 and 31st December 2022 respectively.
- Use of proceeds in relation to the issue of equity securities (including securities convertible into equity securities):
 - *HK\$31.1 billion rights issue and preference shares and warrants issue in 2020.* HK\$9.6 billion unused proceeds were brought forward on 1st January 2023 and have been used for general corporate purposes in the first-half of 2023.
- The Group's policies in relation to financial risk management including the management of currency, interest rate and fuel price exposures and the uses of financial instruments to hedge these exposures are set out in the 2022 Annual Report.

REVIEW REPORT

To the Board of Directors of Cathay Pacific Airways Limited

(Incorporated in Hong Kong with limited liability)



Introduction

We have reviewed the interim financial report set out on pages 24 to 44 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 2023 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 2023 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
9th August 2023

CONDENSED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2023 – Unaudited

	Note	2023 HK\$M	2022 HK\$M	2023 US\$M	2022 US\$M
Revenue					
Passenger services		27,563	2,086	3,534	267
Cargo services		12,432	13,830	1,594	1,773
Other services and recoveries		3,598	2,635	461	338
Total revenue		43,593	18,551	5,589	2,378
Expenses					
Staff		(6,612)	(5,057)	(848)	(648)
Inflight service and passenger expenses		(1,244)	(166)	(159)	(21)
Landing, parking and route expenses		(5,066)	(2,305)	(649)	(296)
Fuel, including hedging gains		(10,635)	(2,630)	(1,363)	(337)
Aircraft maintenance		(3,253)	(1,414)	(417)	(181)
Aircraft depreciation and rentals		(5,043)	(4,966)	(647)	(637)
Other depreciation, amortisation and rentals		(1,305)	(1,221)	(167)	(157)
Others		(3,799)	(2,045)	(488)	(262)
Operating expenses		(36,957)	(19,804)	(4,738)	(2,539)
Operating profit/(loss) before non-recurring items		6,636	(1,253)	851	(161)
Gain on deemed partial disposal of an associate	4	1,929	–	247	–
Reversal of impairment	10	208	–	27	–
Operating profit/(loss)	5	8,773	(1,253)	1,125	(161)
Finance charges		(1,997)	(1,386)	(256)	(178)
Finance income		551	17	71	2
Net finance charges	6	(1,446)	(1,369)	(185)	(176)
Share of losses of associates		(2,620)	(2,726)	(337)	(349)
Profit/(loss) before taxation		4,707	(5,348)	603	(686)
Taxation	7	(439)	349	(56)	45
Profit/(loss) for the period		4,268	(4,999)	547	(641)
Attributable to					
Ordinary shareholders of Cathay Pacific		3,959	(5,299)	507	(679)
Preference shareholder of Cathay Pacific		309	300	40	38
Non-controlling interests		–	–	–	–
Profit/(loss) for the period		4,268	(4,999)	547	(641)
Earnings/(loss) per ordinary share					
Basic	8	61.5¢	(82.3)¢	7.9¢	(10.6)¢
Diluted	8	55.2¢	(82.3)¢	7.1¢	(10.6)¢
Profit/(loss) for the period		4,268	(4,999)	547	(641)
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Cash flow hedges		(948)	1,981	(121)	254
Share of other comprehensive income of associates		(387)	149	(50)	19
Exchange differences on translation of foreign operations		(797)	(938)	(102)	(120)
Other comprehensive income for the period, net of taxation	9	(2,132)	1,192	(273)	153
Total comprehensive income for the period		2,136	(3,807)	274	(488)
Total comprehensive income attributable to					
Ordinary shareholders of Cathay Pacific		1,827	(4,107)	234	(526)
Preference shareholder of Cathay Pacific		309	300	40	38
Non-controlling interests		–	–	–	–
		2,136	(3,807)	274	(488)

The Condensed Financial Statements are prepared and presented in HK\$, the functional currency of Cathay Pacific. The US\$ figures are shown only as supplementary information and are translated at US\$1:HK\$7.8.

The notes on pages 28 to 44 form part of these Condensed Financial Statements.

Consolidated Statement of Financial Position

at 30th June 2023 – Unaudited

	Note	30th June 2023 HK\$M	31st December 2022 HK\$M	30th June 2023 US\$M	31st December 2022 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	10	116,413	118,855	14,925	15,238
Intangible assets	11	14,671	14,800	1,881	1,898
Investments in associates	12	14,634	16,492	1,876	2,114
Other long-term receivables and investments		3,317	3,297	425	423
Deferred tax assets		1,101	1,134	141	145
		150,136	154,578	19,248	19,818
Interest-bearing liabilities	13	(58,831)	(62,463)	(7,542)	(8,008)
Other long-term payables	14	(2,842)	(2,766)	(365)	(355)
Other long-term contract liabilities		(266)	(282)	(34)	(36)
Deferred tax liabilities		(8,286)	(8,117)	(1,062)	(1,041)
		(70,225)	(73,628)	(9,003)	(9,440)
Net non-current assets		79,911	80,950	10,245	10,378
Current assets and liabilities					
Stock		941	1,137	121	146
Trade and other receivables	15	6,002	6,921	769	887
Assets held for sale		–	1	–	–
Liquid funds	16	24,099	18,277	3,090	2,343
		31,042	26,336	3,980	3,376
Interest-bearing liabilities	13	(9,833)	(14,643)	(1,261)	(1,877)
Trade and other payables	17	(14,583)	(11,199)	(1,869)	(1,436)
Contract liabilities		(18,210)	(13,537)	(2,335)	(1,735)
Taxation		(3,831)	(4,023)	(491)	(516)
		(46,457)	(43,402)	(5,956)	(5,564)
Net current liabilities		(15,415)	(17,066)	(1,976)	(2,188)
Total assets less current liabilities		134,721	137,512	17,272	17,630
Net assets		64,496	63,884	8,269	8,190
CAPITAL AND RESERVES					
Share capital	18	48,322	48,322	6,195	6,195
Reserves		16,168	15,556	2,073	1,994
Funds attributable to the shareholders of Cathay Pacific		64,490	63,878	8,268	8,189
Non-controlling interests		6	6	1	1
Total equity		64,496	63,884	8,269	8,190

The Condensed Financial Statements are prepared and presented in HK\$, the functional currency of Cathay Pacific. The US\$ figures are shown only as supplementary information and are translated at US\$1:HK\$7.8.

The notes on pages 28 to 44 form part of these Condensed Financial Statements.

Consolidated Statement of Cash Flows

for the six months ended 30th June 2023 – Unaudited

	2023 HK\$M	2022 HK\$M	2023 US\$M	2022 US\$M
Operating activities				
Cash generated from operations	20,752	6,993	2,661	897
Interest received	207	16	27	2
Interest paid	(1,570)	(1,071)	(202)	(137)
Tax paid	(368)	(302)	(47)	(39)
Net cash inflow from operating activities	19,021	5,636	2,439	723
Investing activities				
Net increase in liquid funds other than cash and cash equivalents	(2,358)	(278)	(302)	(36)
Proceeds from sales of property, plant and equipment	40	27	5	3
Net increase in other long-term receivables and investments	(39)	(26)	(5)	(3)
Payments for property, plant and equipment and intangible assets	(1,994)	(1,379)	(256)	(177)
Dividends received	58	1,006	7	129
Loan to associates	(13)	(16)	(2)	(2)
Net cash outflow from investing activities	(4,306)	(666)	(553)	(86)
Financing activities				
New financing	1,293	4,173	166	535
Loan and lease repayments	(11,305)	(11,381)	(1,449)	(1,459)
Dividends paid – preference shares	(1,524)	–	(195)	–
Net cash outflow from financing activities	(11,536)	(7,208)	(1,478)	(924)
Net increase/(decrease) in cash and cash equivalents	3,179	(2,238)	408	(287)
Cash and cash equivalents at 1st January	7,340	8,573	941	1,099
Effect of exchange differences	(2)	(35)	–	(4)
Cash and cash equivalents at 30th June	10,517	6,300	1,349	808

The Condensed Financial Statements are prepared and presented in HK\$, the functional currency of Cathay Pacific. The US\$ figures are shown only as supplementary information and are translated at US\$1:HK\$7.8.

The notes on pages 28 to 44 form part of these Condensed Financial Statements.

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2023 – Unaudited

	Attributable to the shareholders of Cathay Pacific								
	Share capital HK\$M	Convertible bond reserve HK\$M	Retained profit HK\$M	Investment revaluation reserve (non-recycling) HK\$M	Cash flow hedge reserve HK\$M	Others HK\$M	Total HK\$M	Non-controlling interests HK\$M	Total equity HK\$M
At 1st January 2023	48,322	526	13,284	(157)	1,467	436	63,878	6	63,884
Changes in equity for the six months ended 30th June 2023:									
Profit for the period	-	-	4,268	-	-	-	4,268	-	4,268
Other comprehensive income	-	-	-	-	(948)	(1,184)	(2,132)	-	(2,132)
Total comprehensive income for the period	-	-	4,268	-	(948)	(1,184)	2,136	-	2,136
Dividend – preference shares	-	-	(1,524)	-	-	-	(1,524)	-	(1,524)
At 30th June 2023	48,322	526	16,028	(157)	519	(748)	64,490	6	64,496
At 1st January 2022	48,322	526	19,724	(153)	2,174	1,651	72,244	5	72,249
Changes in equity for the six months ended 30th June 2022:									
Loss for the period	-	-	(4,999)	-	-	-	(4,999)	-	(4,999)
Other comprehensive income	-	-	-	-	1,981	(789)	1,192	-	1,192
Total comprehensive income for the period	-	-	(4,999)	-	1,981	(789)	(3,807)	-	(3,807)
At 30th June 2022	48,322	526	14,725	(153)	4,155	862	68,437	5	68,442

The notes on pages 28 to 44 form part of these Condensed Financial Statements.

Notes to the Condensed 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 9th August 2023.

The financial information relating to the year ended 31st December 2022 that is included in this document 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 2022 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report has been 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.

The accounting policies, methods of computation and presentation used in the preparation of the interim Condensed Financial Statements are consistent with those described in the 2022 annual financial statements except for changes in accounting policies in note 2 below.

2. Changes in accounting policies

(a) New and amended HKFRSs

Except as described below, the accounting policies applied in these interim Condensed Financial Statements are the same as those applied in the Group's consolidated financial statement for the year ended 31st December 2022.

The Group has applied the following new and amended HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- HKFRS 17 "Insurance contracts"
- Amendments to HKAS 8 "Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates"
- Amendments to HKAS 12 "Income taxes: Deferred tax related to assets and liabilities arising from a single transaction"
- Amendments to HKAS 12 "Income taxes: International tax reform – Pillar Two model rules"

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

The standard and the amendments do not have a material impact on these Condensed Financial Statements except as described below.

2. Changes in accounting policies (continued)

Amendments to HKAS 12 “Income taxes: Deferred tax related to assets and liabilities arising from a single transaction”

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in the annual financial statements, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

(b) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Government of the Hong Kong SAR (the “Government”) gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”), which will eventually abolish the statutory right of an employer to reduce its long service payment (“LSP”) and severance payment payable to a Hong Kong employee by drawing on its mandatory contributions to the mandatory provident fund (“MPF”) scheme (also known as the “offsetting mechanism”). The Government has subsequently announced that the Amendment Ordinance will come into effect from 1st May 2025 (the “Transition Date”). Separately, the Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP in respect of an employee’s service from the Transition Date. However, where an employee’s employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP in respect of the employee’s service up to that date; in addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP; however, upon the enactment of the Amendment Ordinance in June 2022, entities can no longer apply the practical expedient in paragraph 93(b) of HKAS 19 to recognise such deemed contributions as reduction of current service cost in the period the related service is rendered, and any impact from ceasing to apply the practical expedient is recognised as a catch-up adjustment in profit or loss with a corresponding adjustment to the LSP liability in the annual financial statements for the year ended 31st December 2022.

2. Changes in accounting policies (continued)

In this interim financial report and in prior periods, consistent with the HKICPA guidance the Group has been accounting for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed employee contributions towards the LSP. However, the Group has been applying the above-mentioned practical expedient.

The Group has assessed the implications of this new guidance on the above accounting policies and has decided to change those accounting policies to conform with the guidance. The management has commenced the processes on implementing the change including additional data collection and impact assessment. However, the impact of the change is not reasonably estimable at the time this interim financial report is authorised for issue, as the Group has yet to fully complete its assessment of the impact of the HKICPA guidance. The Group expects to adopt this guidance with retrospective application in its annual financial statements for the year ending 31st December 2023.

3. Segment information

(a) Segment results

	Six months ended 30th June 2023					
	Cathay Pacific HK\$M	HK Express HK\$M	Air Hong Kong HK\$M	Airline services HK\$M	Associates HK\$M	Total HK\$M
Profit or loss						
Sales to external customers	38,995	2,601	1,676	321		43,593
Inter-segment sales	278	–	4	1,386		1,668
Segment revenue	39,273	2,601	1,680	1,707		45,261
Segment profit/(loss), before non-recurring items	5,770	548	477	(159)		6,636
Gain on deemed partial disposal of an associate	1,929	–	–	–		1,929
Reversal of impairment	208	–	–	–		208
Segment profit/(loss)	7,907	548	477	(159)		8,773
Net finance (charges)/income	(880)	(178)	4	(392)		(1,446)
	7,027	370	481	(551)		7,327
Share of losses of associates	–	–	–	–	(2,620)	(2,620)
Profit/(loss) before taxation	7,027	370	481	(551)	(2,620)	4,707
Taxation	(310)	(37)	(79)	(1)	(12)	(439)
Profit/(loss) for the period	6,717	333	402	(552)	(2,632)	4,268
Non-controlling interests	–	–	–	–	–	–
Profit/(loss) attributable to the shareholders of Cathay Pacific	6,717	333	402	(552)	(2,632)	4,268

3. Segment information (continued)

	Six months ended 30th June 2022					
	Cathay Pacific HK\$M	HK Express HK\$M	Air Hong Kong HK\$M	Airline services HK\$M	Associates HK\$M	Total HK\$M
Profit or loss						
Sales to external customers	16,435	34	1,664	418		18,551
Inter-segment sales	206	–	3	637		846
Segment revenue	16,641	34	1,667	1,055		19,397
Segment (loss)/profit	(578)	(770)	458	(363)		(1,253)
Net finance charges	(966)	(195)	–	(208)		(1,369)
	(1,544)	(965)	458	(571)		(2,622)
Share of losses of associates	–	–	–	–	(2,726)	(2,726)
(Loss)/profit before taxation	(1,544)	(965)	458	(571)	(2,726)	(5,348)
Taxation	43	141	(75)	(3)	243	349
(Loss)/profit for the period	(1,501)	(824)	383	(574)	(2,483)	(4,999)
Non-controlling interests	–	–	–	–	–	–
(Loss)/profit attributable to the shareholders of Cathay Pacific	(1,501)	(824)	383	(574)	(2,483)	(4,999)

- (i) Cathay Pacific provides full service international passenger and cargo air transportation. Management considers that there is no suitable basis for allocating operating results between passenger and cargo operations. Accordingly these are not disclosed as separate business segments.
- (ii) HK Express is a low cost passenger carrier offering scheduled services within Asia.
- (iii) Air Hong Kong provides express cargo air transportation offering scheduled services within Asia.
- (iv) Airline services represents our supporting airline operations including catering, cargo terminal operations, ground handling services and commercial laundry operations.

The composition of reportable segments of the Group is determined according to the nature of the business, and is aligned with financial information provided regularly to the Group's executive management.

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

CONDENSED FINANCIAL STATEMENTS
NOTES TO THE CONDENSED FINANCIAL STATEMENTS

3. Segment information (continued)

(b) Geographical information

	Six months ended 30th June	
	2023 HK\$M	2022 HK\$M
Revenue by origin of sale:		
North Asia		
– Chinese Mainland, Hong Kong and Taiwan	26,473	12,599
– Japan and Korea	1,766	1,283
Americas	5,695	1,203
Europe	3,946	654
Southeast Asia	2,615	1,923
Southwest Pacific	2,032	261
South Asia, Middle East and Africa	1,066	628
	43,593	18,551

A geographic analysis of segment results is not disclosed for the reasons set out in the 2022 Annual Report.

4. Gain on deemed partial disposal of an associate

On 16th January 2023, the Group's interest in Air China was diluted from 18.13% to 16.26% as a result of Air China issuing 1,676 million new A shares to investors with proceeds of the issuance totalling RMB15 billion. Notwithstanding the dilution, the Group continues to have significant influence over Air China and has continued to equity account for its interest in Air China as an associate.

A gain on this deemed partial disposal of HK\$1,929 million was recorded, principally reflecting the change in the Group's share of net assets in Air China immediately before and after the share issuance.

5. Operating profit/(loss)

	Six months ended 30th June	
	2023 HK\$M	2022 HK\$M
Operating profit/(loss) has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– right-of-use assets	2,270	2,428
– owned	3,558	3,387
Amortisation of intangible assets	302	298
Reversal of impairment		
– property, plant and equipment	(208)	–
Expenses relating to short-term leases and leases of low-value assets	5	24
COVID-19-related rent concessions recognised	–	(113)
Gain on disposal of property, plant and equipment, net	(9)	(10)
Cost of stock expensed	575	268
Exchange differences, net	178	295
Auditors' remuneration	8	8
Government grants	(325)	(750)
Dividend income from unlisted investments	(57)	(26)

6. Net finance charges

	Six months ended 30th June	
	2023 HK\$M	2022 HK\$M
Net interest charges comprise:		
– lease liabilities stated at amortised cost	758	453
– bank loans and overdrafts		
– wholly repayable within five years	444	162
– not wholly repayable within five years	339	152
– Other borrowings		
– wholly repayable within five years	298	330
– not wholly repayable within five years	158	157
	1,997	1,254
(Income)/loss from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	(247)	97
– bank deposits and others	(232)	(17)
	(479)	80
Fair value change:		
– (gain)/loss on financial derivatives	(72)	35
	1,446	1,369

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 is net gain from derivatives that are classified as fair value through profit or loss of HK\$4 million (2022: HK\$55 million).

7. Taxation

	Six months ended 30th June	
	2023 HK\$M	2022 HK\$M
Current tax expenses		
– Hong Kong profits tax	74	71
– overseas tax	173	41
– (over)/under provisions for prior years	(112)	16
Deferred tax		
– origination and reversal of temporary differences	304	(477)
	439	(349)

Hong Kong profits tax is calculated at 16.5% (2022: 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(c) to the Condensed Financial Statements).

8. Earnings/(loss) per ordinary share

	2023			2022		
	Profit ^(a) HK\$M	Weighted average number of ordinary shares	Per share amount HK cents	Loss ^(a) HK\$M	Weighted average number of ordinary shares	Per share amount HK cents
Basic earnings/(loss) per ordinary share	3,959	6,437,200,203	61.5	(5,299)	6,437,200,203	(82.3)
Effect of dilutive potential ordinary shares ^(b)						
– Deemed issue of ordinary shares from the exercise of warrants	–	163,945,049		–	–	
– Convertible notes and its after tax effect of effective interest	116	786,464,410		–	–	
Diluted earnings/(loss) per ordinary share	4,075	7,387,609,662	55.2	(5,299)	6,437,200,203	(82.3)

(a) The amounts represent the profit/(loss) attributable to the ordinary shareholders of Cathay Pacific, which is the profit/(loss) for the period after non-controlling interests and dividends attributable to the holder of the cumulative preference shares classified as equity.

(b) On 12th August 2020, the Company issued warrants which entitle the holder to subscribe for up to 416,666,666 ordinary shares. On 5th February 2021, the Company issued convertible bonds which entitle the holder to convert up to 786,464,410 ordinary shares. The Company's warrants and convertible bonds as at 30th June 2023 has a dilutive effect to the earnings per ordinary share. The dilutive impact for the period ended 30th June 2023 is presented above.

9. Other comprehensive income

	Six months ended 30th June	
	2023 HK\$M	2022 HK\$M
Cash flow hedges		
– (loss)/gain recognised during the period	(257)	4,082
– gain transferred to profit or loss	(787)	(1,897)
– deferred taxation	96	(204)
Share of other comprehensive income of associates	(387)	149
Exchange differences on translation of foreign operations		
– loss recognised during the period	(745)	(938)
– reclassified to profit or loss upon deemed partial disposal	(52)	–
Other comprehensive income for the period	(2,132)	1,192

10. Property, plant and equipment

	Aircraft and related equipment		Other equipment		Land and buildings		Total HK\$M
	Owned HK\$M	Right-of-use assets HK\$M	Owned HK\$M	Right-of-use assets HK\$M	Owned HK\$M	Right-of-use assets HK\$M	
Cost							
At 1st January 2023	139,032	58,524	5,339	259	15,206	7,505	225,865
Additions	2,406	681	60	–	28	26	3,201
Disposals	(491)	(556)	(25)	–	–	(24)	(1,096)
Transfers	11,654	(11,654)	–	–	–	–	–
Other right-of-use asset adjustments	–	39	–	1	–	(16)	24
At 30th June 2023	152,601	47,034	5,374	260	15,234	7,491	227,994
Accumulated depreciation and impairment							
At 1st January 2023	68,246	21,444	4,217	157	9,004	3,942	107,010
Charge for the period	3,158	1,881	95	23	305	366	5,828
Disposals	(447)	(555)	(24)	–	–	(23)	(1,049)
Reversal of impairment	(208)	–	–	–	–	–	(208)
Transfers	5,801	(5,801)	–	–	–	–	–
At 30th June 2023	76,550	16,969	4,288	180	9,309	4,285	111,581
Net book value							
At 30th June 2023	76,051	30,065	1,086	80	5,925	3,206	116,413
At 31st December 2022	70,786	37,080	1,122	102	6,202	3,563	118,855

Reversal of impairment of HK\$208 million under Cathay Pacific in connection with three previously impaired aircraft returning to service.

11. Intangible assets

	Goodwill HK\$M	Computer software HK\$M	Others HK\$M	Total – Intangible assets HK\$M	Prepayments HK\$M	Total – Intangible assets and related prepayments HK\$M
Cost						
At 1st January 2023	11,654	8,751	39	20,444	24	20,468
Additions	–	171	–	171	5	176
At 30th June 2023	11,654	8,922	39	20,615	29	20,644
Accumulated amortisation and impairment						
At 1st January 2023	39	5,595	32	5,666	2	5,668
Charge for the period	–	300	2	302	3	305
At 30th June 2023	39	5,895	34	5,968	5	5,973
Net book value						
At 30th June 2023	11,615	3,027	5	14,647	24	14,671
At 31st December 2022	11,615	3,156	7	14,778	22	14,800

12. Investments in associates

	30th June 2023 HK\$M	31st December 2022 HK\$M
Share of net assets		
– listed in Hong Kong	6,404	7,718
– unlisted	5,374	5,435
Goodwill	2,821	3,317
	14,599	16,470
Less: impairment loss	(56)	(56)
	14,543	16,414
Loans due from associates	91	78
	14,634	16,492

13. Interest-bearing liabilities

	30th June 2023		31st December 2022	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Loans and other borrowings ^{(a)(b)}	4,587	35,362	8,490	36,676
Lease liabilities	5,246	23,469	6,153	25,787
	9,833	58,831	14,643	62,463

(a) On 5th February 2021, the Group completed the issuance of HK\$6,740 million guaranteed convertible bonds at a rate of 2.75%, with maturity in 2026. The bonds are convertible at a conversion price of HK\$8.57 per share and entitle the holder to convert up to 786,464,410 ordinary shares of Cathay Pacific Airways Limited. The bonds are accounted for as compound financial instruments, with both a liability component and an equity component.

(b) During the six months ended 30th June 2023, the following transactions have taken place under the Group's US\$2.5 billion Medium Term Note Programme:

- the Group did not issue any listed or unlisted notes (six months ended 30th June 2022: issued HK\$288 million of unlisted notes)
- the Group redeemed SG\$175 million (HK\$1.0 billion) of listed notes listed on the Singapore Exchange and HK\$400 million of unlisted notes (six months ended 30th June 2022: redeemed HK\$500 million of unlisted notes)

13. Interest-bearing liabilities (continued)

At 30th June 2023, aircraft and related equipment of HK\$47,915 million and land and building of HK\$2,086 million (31st December 2022: aircraft and related equipment of HK\$48,137 million and land and building of HK\$2,130 million) are pledged as security for the secured loans and other borrowings.

The Group's net debt/equity ratio and adjusted net debt/equity ratio at the end of the current and previous reporting periods are summarised below:

	30th June 2023 HK\$M	31st December 2022 HK\$M
Non-current liabilities:		
Loans and other borrowings	35,362	36,676
Lease liabilities	23,469	25,787
	58,831	62,463
Current liabilities:		
Loans and other borrowings	4,587	8,490
Lease liabilities	5,246	6,153
	9,833	14,643
Total borrowings	68,664	77,106
Liquid funds	(24,099)	(18,277)
Net borrowings	44,565	58,829
Funds attributable to the shareholders of Cathay Pacific	64,490	63,878
Net debt/equity ratio	0.69	0.92

To allow for comparability of gearing ratios against group borrowing covenants, the Group has chosen to present a subset of net borrowings and the net debt/equity ratio which exclude leases without asset transfer components. Only lease liabilities which transfer ownership of the underlying asset to the Group by the end of the lease term or contain a purchase option that the Group is reasonably certain to exercise are included.

	30th June 2023 HK\$M	31st December 2022 HK\$M
Net borrowings	44,565	58,829
Less: lease liabilities without asset transfer components	(12,422)	(13,765)
Adjusted net borrowings, excluding leases without asset transfer components	32,143	45,064
Adjusted net debt/equity ratio, excluding leases without asset transfer components	0.50	0.71

14. Other long-term payables

Other long-term payables include a maintenance provision for returning the aircraft to lessors in line with contractual maintenance conditions, the long-term portion of derivative financial liabilities and other deferred liabilities.

15. Trade and other receivables

	30th June 2023 HK\$M	31st December 2022 HK\$M
Trade debtors, net of loss allowances	3,988	4,010
Derivative financial assets – current portion	364	1,085
Other receivables and prepayments	1,640	1,819
Due from associates and other related companies	10	7
	6,002	6,921
	30th June 2023 HK\$M	31st December 2022 HK\$M
Analysis of trade debtors (net of loss allowances) by invoice date:		
Within one month	3,893	3,502
One to three months	85	485
More than three months	10	23
	3,988	4,010

16. Liquid funds

	30th June 2023 HK\$M	31st December 2022 HK\$M
Cash and cash equivalents		
Short-term deposits and bank balances	10,517	7,340
Other liquid funds		
Short-term deposits maturing beyond three months when placed	2,579	215
Funds with investment managers		
– debt securities listed outside Hong Kong	10,749	10,572
– bank deposits	133	31
Other liquid investments		
– debt securities listed outside Hong Kong	5	5
– bank deposits	116	114
Liquid funds	24,099	18,277

Included in other liquid investments are bank deposits of HK\$116 million (31st December 2022: HK\$114 million) and debt securities of HK\$5 million (31st December 2022: HK\$5 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.

16. Liquid funds (continued)

Available unrestricted funds to the Group are as follows:

	30th June 2023 HK\$M	31st December 2022 HK\$M
Liquid funds	24,099	18,277
Less amounts pledged as part of long-term financing		
– debt securities listed outside Hong Kong	(5)	(5)
– bank deposits	(116)	(114)
Committed undrawn facilities	4,918	9,030
Available unrestricted liquidity to the Group	28,896	27,188

Committed undrawn facilities may be drawn at any time in either Hong Kong dollar or United States dollar.

17. Trade and other payables

	30th June 2023 HK\$M	31st December 2022 HK\$M
Trade creditors	6,001	5,380
Derivative financial liabilities – current portion	537	217
Other payables	7,524	5,272
Due to associates	205	135
Due to other related companies	316	195
	14,583	11,199

	30th June 2023 HK\$M	31st December 2022 HK\$M
Analysis of trade creditors by invoice date:		
Within one month	5,537	4,895
One to three months	305	332
More than three months	159	153
	6,001	5,380

18. Share capital

	30th June 2023		31st December 2022	
	Number of shares	HK\$M	Number of shares	HK\$M
Issued and fully paid				
Ordinary shares				
At 30th June / 31st December	6,437,200,203	28,822	6,437,200,203	28,822
Preference shares				
At 30th June / 31st December	195,000,000	19,500	195,000,000	19,500
	48,322		48,322	

18. Share capital (continued)

The preference shares are not redeemable at the option of the holder. The Company may redeem all or some of the preference shares, in an aggregate amount equal to the issue price of the preference share HK\$100 each plus any unpaid dividends.

The Company also issued warrants on 12th August 2020 which entitle the holder to subscribe for up to 416,666,666 fully paid ordinary shares at the warrant exercise price of HK\$4.68 per share (subject to adjustment). The expiry date of the warrant is five years from 12th August 2020.

The Group has convertible bonds in issue which entitle the holder to convert up to 786,464,410 ordinary shares at a conversion price of HK\$8.57 per share. The bonds are accounted for as compound financial instruments, with both a liability component and an equity component.

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's ordinary shares and no exercise of warrants during the period (2022: nil). The Group has not adopted any share option scheme. At 30th June 2023, 6,437,200,203 ordinary shares and 195,000,000 preference shares were in issue (31st December 2022: 6,437,200,203 ordinary shares and 195,000,000 preference shares).

19. Dividends

(a) Dividends on cumulative preference shares issued by the Company

The preference shares will accrue dividends at the rate of:

- (i) 3% per annum from and including the Issue Date (12th August 2020) to but excluding the date falling three years from the Issue Date (the "First Step-up Date");
- (ii) 5% per annum from and including the First Step-up Date to but excluding the date falling four years from the Issue Date (the "Second Step-up Date");
- (iii) 7% per annum from and including the Second Step-up Date to but excluding the date falling five years from the Issue Date (the "Third Step-up Date"); and
- (iv) 9% per annum from and including the Third Step-up Date

Dividends on cumulative preference shares are paid semi-annually in arrears at the current rate of 3% per annum, compounding, and can be deferred in whole or in part at the Company's discretion. Dividends on cumulative preference shares are not accrued until declared and are classified as distributions from equity.

The dividend attributable to the preference shareholder for the period ended 30th June 2023 was HK\$309 million (2022: HK\$300 million).

Any deferred or unpaid dividends on cumulative preference shares shall accumulate and constitute "Arrears of Dividend". On 30th June 2023, the Company paid its accumulated Arrears of Dividend of HK\$1,524 million to the preference shareholder, representing HK\$7.8 per preference share, bringing its dividend payments on the preference shares up to date.

On 9th August 2023, the Directors approved the payment of the HK\$292.5 million dividend due to the preference shareholder on 14th August 2023. The dividend represents HK\$1.5 per preference share. This dividend has not been recognised as a liability at the reporting date.

19. Dividends (continued)

(b) Dividends payable to ordinary shareholders

The Articles of Association of the Company require that any deferred or unpaid dividends on cumulative preference shares shall accumulate and constitute "Arrears of Dividend" and that the Company shall not make any discretionary distribution or dividend in cash or otherwise on any ordinary shares until all outstanding Arrears of Dividend have been paid in full and the dividends scheduled to be paid on the subsequent dividend payment date are paid in full to the preference shareholders.

Note 19(a) details the cumulative Arrears of Dividend as at 30th June 2023. Although the Company had nil Arrears of Dividend on 30th June 2023, the dividend scheduled to be paid on 14th August 2023 had not yet been paid in full to the preference shareholders and therefore no dividends to ordinary equity shareholders were proposed for the period.

There were Arrears of Dividend as at 31st December 2022 and accordingly no dividends to ordinary equity shareholders were proposed.

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 2023		Six months ended 30th June 2022	
	Associates HK\$M	Other related parties HK\$M	Associates HK\$M	Other related parties HK\$M
Revenue	28	3	27	7
Aircraft maintenance	522	822	301	619
Other operating expenses	104	300	58	123
Dividend income	–	57	132	26
Finance income	3	–	1	–
Lease payments	–	24	–	21

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

21. Capital commitments and contingencies

(a) Outstanding capital commitments authorised at the end of the period but not provided for in the Condensed Financial Statements:

	30th June 2023 HK\$M	31st December 2022 HK\$M
Authorised and contracted for	46,206	47,951
Authorised but not contracted for	6,754	6,016
	52,960	53,967

21. Capital commitments and contingencies (continued)

(b) Performance and financial guarantees outstanding at the end of the period:

	30th June 2023 HK\$M	31st December 2022 HK\$M
Associates	209	209

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

(d) The Company remains the subject of antitrust proceedings in various jurisdictions. 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 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 22 on page 137 in the 2022 Annual Report.

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 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. However, the European Commission's finding against the Company and the imposition of this fine was annulled by the General Court in December 2015 and the fine of Euros 57.12 million was refunded to the Company in February 2016. The European Commission issued a new decision against the Company and the other airlines involved in the case in March 2017. The same fine of Euros 57.12 million was imposed on the Company, which was paid by the Company in June 2017. The Company filed an appeal to the General Court against this decision, and on 30th March 2022 the General Court partially annulled the decision, and a refund of a portion of the fine, Euros 10 million, was paid to the Company in June 2022. The Company filed an appeal to the European Court of Justice ("ECJ") in early June 2022 and a final ECJ judgment is expected by mid-2024.

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 Germany, the Netherlands and Norway alleging violations of applicable competition laws arising from the Company's alleged conduct relating to its air cargo operations. The Company is represented by legal counsel and is defending these actions.

22. Financial risk management

(a) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values at 30th June 2023 and 31st December 2022 except for the following financial instruments, for which their carrying amounts and fair values are shown below:

	30th June 2023		31st December 2022	
	Carrying amount HK\$M	Fair value HK\$M	Carrying amount HK\$M	Fair value HK\$M
Loans and other borrowings	(39,949)	(41,366)	(45,166)	(47,189)

The fair value of these financial instruments are measured using valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates.

(b) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 30th June 2023 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 inputs 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 2023				31st December 2022			
	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								
Unlisted equity investments at fair value	-	-	765	765	-	-	840	840
Liquid funds								
– funds with investment managers	-	10,749	-	10,749	-	10,572	-	10,572
– other liquid investments	-	5	-	5	-	5	-	5
Derivative financial assets	-	500	-	500	-	1,185	-	1,185
	-	11,254	765	12,019	-	11,762	840	12,602
Liabilities								
Derivative financial liabilities	-	738	-	738	-	(358)	-	(358)
	-	738	-	738	-	(358)	-	(358)

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

22. Financial risk management (continued)

The fair value of the unlisted equity 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 2023 and 31st December 2022, information about fair value measurements using significant unobservable inputs (Level 3) is as follows:

Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	(Negative)/positive impact on fair value (HK\$M)
Unlisted equity investments				
Discount rate	2023: 8.0-11.0% (2022: 8.0-11.0%)	The higher the discount rate, the lower the fair value	2023: +/- 0.5% (2022: +/- 0.5%)	2023: (29)/32 (2022: (29)/32)

There was no movement during the six months ended 30th June 2023 and 2022 in the balance of Level 3 fair value measurements.

23. Events after the reporting period

Proposed Capital Reduction

On 9th August 2023, the Company announced a Proposed Capital Reduction by reducing all of the credit standing in the Preference Shares Capital Account of the Company (being HK\$19,500 million). The credit in the amount of HK\$19,500 million arising from the Proposed Capital Reduction will be applied to the Preference Shares Reserves Account and be used to redeem all of the 195,000,000 Preference Shares outstanding. Subject to and following the completion of the Proposed Capital Reduction, the Company will exercise its right to first redeem and cancel 97,500,000 Preference Shares at a redemption price of HK\$100 per Preference Share plus any unpaid Preference Share dividends before the end of 2023. Upon the completion of the First Redemption, there will be 97,500,000 Preference Shares outstanding.

Possible Aircraft Purchase

References are made to (i) the announcement dated 13th September 2017 (the "Announcement") and (ii) the circular dated 24th October 2017 (the "Circular") issued by the Company in relation to the purchase of 32 Airbus A321-200neo aircraft. Unless otherwise defined herein, capitalised terms used in this note shall have the same meanings as defined in the Announcement and the Circular. Pursuant to the Purchase Agreement, a wholly owned subsidiary of the Company acquired and Airbus S.A.S. granted the rights to purchase up to 32 additional Airbus A321-200neo/A320-200neo aircraft (the "Purchase Rights"). The wholly owned subsidiary intends to exercise the Purchase Rights to purchase up to 32 Airbus A321-200neo/A320-200neo aircraft on or before 30th September 2023.

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 Part 2 of 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.

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 2023 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

Directors’ Particulars

A change in the particulars of the Directors is set out as follows:

1. Sun Yuquan has served as the chief accountant of Air China Limited since March 2023.
2. Xiao Feng has ceased to be the chief accountant and become the chief economist of Air China Limited since March 2023.
3. Christoph Mueller has ceased to be a Non-Executive Director of Inmarsat because the entire Board of Inmarsat has been dissolved due to the merger of Inmarsat with Viasat effective 25th May 2023.
4. Wang Mingyuan has been appointed as a Non-Executive Director of the Company with effect from 24th July 2023.

Directors’ Interests

At 30th June 2023, the register maintained under Section 352 of the Securities and Futures Ordinance (“SFO”) showed that no Director or chief executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares (including options) and debentures of the Company 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 2023 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	No. of shares	Percentage of voting shares (%)	Type of interest (Note)
Long position			
1. Air China Limited	4,827,269,423	74.99	Attributable interest (a)
2. China National Aviation Holding Corporation Limited	4,827,269,423	74.99	Attributable interest (b)
3. Swire Pacific Limited	4,827,269,423	74.99	Attributable interest (a)
4. John Swire & Sons Limited	4,827,269,423	74.99	Attributable interest (c)
5. Qatar Airways Group Q.C.S.C.	643,076,181	9.99	Beneficial interest (d)
6. The Financial Secretary Incorporated	416,666,666	6.47	Interest in controlled corporation (e)
7. HSBC Holdings plc	338,542,430	5.25	Interest in controlled corporation (f)
Short position			
1. HSBC Holdings plc	257,473,912	3.99	Interest in controlled corporation (f)

Note: At 30th June 2023:

- (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 4,827,269,423 shares of the Company, comprising:
 - (i) 2,896,753,089 shares directly held by Swire Pacific;
 - (ii) 1,930,516,334 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: 472,248,545 shares held by Angel Paradise Ltd., 351,574,615 shares held by Custain Limited, 314,054,626 shares held by Easerich Investments Inc., 310,870,873 shares held by Grand Link Investments Holdings Ltd., 339,343,616 shares held by Motive Link Holdings Inc. and 142,424,059 shares held by Perfect Match Assets Holdings Ltd.
- (b) China National Aviation Holding Corporation Limited was deemed to be interested in a total of 4,827,269,423 shares of the Company, in which its subsidiary Air China was 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 4,827,269,423 shares of the Company by virtue of the Swire group being interested in 60.31% of the equity of Swire Pacific and controlling 68.13% of the voting rights attached to shares in Swire Pacific.
- (d) Qatar Airways Group Q.C.S.C. held a total of 643,076,181 shares of the Company as beneficial owner.
- (e) (i) Aviation 2020 Limited, a limited company wholly owned by the Financial Secretary Incorporated, did not hold any ordinary shares of the Company; (ii) pursuant to a subscription agreement dated 9th June 2020 entered into between the Company and Aviation 2020 Limited in relation to the issue of preference shares and warrants, the Company issued 416,666,666 warrants to Aviation 2020 Limited on 12th August 2020, which entitle Aviation 2020 Limited to subscribe for up to 416,666,666 ordinary shares of the Company; (iii) if Aviation 2020 Limited chooses to exercise all warrants, it would hold approximately 6.08% of the ordinary shares of the Company as enlarged by the issue of such shares.
- (f) These shares were held by The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), a corporation controlled by HSBC Holdings plc, as borrower under the Global Master Securities Lending Agreement dated 27th January 2021 entered into between HSBC and Swire Pacific. The interests were disclosed based on the disclosure of interest filing made by HSBC Holdings plc on 9th May 2023.

Disclaimer

This document may contain certain forward-looking statements that reflect the Company's beliefs, plans or expectations about the future or future events. These forward-looking statements are based on a number of assumptions, current estimates and projections, and are therefore subject to inherent risks, uncertainties and other factors beyond the Company's control. The actual results or outcomes of events may differ materially and/or adversely due to a number of factors, including the effects of COVID-19, changes in the economies and industries in which the Group operates (in particular in Hong Kong and the Chinese Mainland), macro-economic and geopolitical uncertainties, changes in the competitive environment, foreign exchange rates, interest rates and commodity prices, and the Group's ability to identify and manage risks to which it is subject. Nothing contained in these forward-looking statements is, or shall be, relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. Neither the Company nor its directors, officers, employees, agents, affiliates, advisers or representatives assume any responsibility to update these forward-looking statements or to adapt them to future events or developments or to provide supplemental information in relation thereto or to correct any inaccuracies.

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



© Cathay Pacific Airways Limited
國泰航空有限公司

