

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

Announcement

2020 Interim Results

Financial and Operational Highlights

Group Financial Statistics

		2020	2019	
		Six months ended 30th June		Change
Results				
Revenue	<i>HK\$ million</i>	27,669	53,547	-48.3%
(Loss)/profit attributable to the shareholders of Cathay Pacific	<i>HK\$ million</i>	(9,865)	1,347	-11,212
(Loss)/earnings per share	<i>HK cents</i>	(250.8)	34.2	-285.0
Dividend per share	<i>HK\$</i>	-	0.18	-100.0%
(Loss)/profit margin	<i>%</i>	(35.7)	2.5	-38.2%pt
		30th June	31st December	
Financial position				
Funds attributable to the shareholders of Cathay Pacific	<i>HK\$ million</i>	49,371	62,773	-21.3%
Net borrowings*	<i>HK\$ million</i>	93,033	82,396	+12.9%
Shareholders' funds per share	<i>HK\$</i>	12.6	16.0	-21.3%
Net debt/equity ratio*	<i>Times</i>	1.88	1.31	+0.57 times

Operating Statistics – Cathay Pacific and Cathay Dragon

		2020	2019	
		Six months ended 30th June		Change
Available tonne kilometres (“ATK”)	<i>Million</i>	8,595	16,318	-47.3%
Available seat kilometres (“ASK”)	<i>Million</i>	27,732	80,814	-65.7%
Available cargo tonne kilometres (“AFTK”)	<i>Million</i>	5,958	8,635	-31.0%
Revenue tonne kilometres (“RTK”)	<i>Million</i>	5,920	11,950	-50.5%
Passenger revenue per ASK	<i>HK cents</i>	37.5	46.3	-19.0%
Revenue passenger kilometres (“RPK”)	<i>Million</i>	18,668	68,078	-72.6%
Revenue passengers carried	<i>'000</i>	4,389	18,261	-76.0%
Passenger load factor	<i>%</i>	67.3	84.2	-16.9%pt
Passenger yield	<i>HK cents</i>	55.5	54.9	+1.1%
Cargo revenue per AFTK	<i>HK\$</i>	1.88	1.19	+58.0%
Cargo revenue tonne kilometres (“RFTK”)	<i>Million</i>	4,129	5,477	-24.6%
Cargo carried	<i>'000 tonnes</i>	667	979	-31.9%
Cargo load factor	<i>%</i>	69.3	63.4	+5.9%pt
Cargo yield	<i>HK\$</i>	2.71	1.88	+44.1%
Cost per ATK (with fuel)	<i>HK\$</i>	3.75	3.12	+20.2%
Fuel consumption per million RTK	<i>Barrels</i>	1,819	1,870	-2.7%
Fuel consumption per million ATK	<i>Barrels</i>	1,253	1,369	-8.5%
Cost per ATK (without fuel)	<i>HK\$</i>	2.95	2.23	+32.3%
Underlying** cost per ATK (without fuel)	<i>HK\$</i>	2.99	2.23	+34.1%
ATK per HK\$'000 staff cost	<i>Unit</i>	1,158	1,805	-35.8%
ATK per staff	<i>'000</i>	325	604	-46.2%
Aircraft utilisation (including parked aircraft)	<i>Hours per day</i>	5.4	12.0	-55.0%
On-time performance	<i>%</i>	86.5	74.2	+12.3%pt
Average age of fleet	<i>Years</i>	10.3	10.2	+0.1 years

* Net borrowings and the net debt/equity ratio excluding leases without asset transfer components are HK\$74,089 million and 1.50 respectively. Further details can be found in note 10 below.

** Underlying costs exclude exceptional items, impairment and related charges and are adjusted for the effect of foreign currency movements.

Chairman's Statement

Despite a promising start in January, with encouraging signs that passenger demand was beginning to return following the social unrest which impacted the second half of 2019, the first six months of 2020 were the most challenging that the Cathay Pacific Group has faced in its more than 70-year history. The impact of COVID-19 on the Group's business and the global economy is unprecedented. The global health crisis has decimated the travel industry and the future remains highly uncertain, with most analysts suggesting that it will take years to recover to pre-crisis levels.

In response to this unprecedented situation, in June 2020 Cathay Pacific announced a HK\$39 billion recapitalisation, comprising a HK\$19.5 billion preference share issue (with attached warrants), a HK\$11.7 billion rights issue and a HK\$7.8 billion bridging loan facility. This recapitalisation was completed on 12 August 2020. On behalf of Cathay Pacific Group, I wish to extend our appreciation for the support provided by our shareholders and the Hong Kong Special Administrative Region Government in participating in the recapitalisation issue which demonstrates the confidence they have in the Group, and in our ability to continue to play a critical leadership role in the development of the Hong Kong aviation hub.

The Cathay Pacific Group's attributable loss was HK\$9,865 million in the first half of 2020 (2019 first half: profit of HK\$1,347 million). Cathay Pacific and Cathay Dragon reported a loss after tax of HK\$7,361 million in the first half of 2020 (2019 first half: profit of HK\$675 million), and the share of losses from subsidiaries and associates was HK\$2,504 million (2019 first half: profit of HK\$672 million).

The loss for the first half of 2020 is net of the receipt of HK\$1,060 million of COVID-19 related government grants globally and includes impairment and related charges of HK\$2,465 million relating to 16 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors, and to certain airline service subsidiaries' assets.

Business performance of Cathay Pacific and Cathay Dragon

Passenger revenue decreased by 72.2% to HK\$10,396 million in the first half of 2020. RPK traffic decreased by 72.6%. This loss of revenue reflects the precipitous drop in passenger demand resulting from the extensive travel restrictions, border controls and quarantine arrangements which were implemented around the world in response to the COVID-19 pandemic. In total, we carried 4.4 million passengers in the first six months of the year, 76.0% fewer than in 2019. The load factor also dropped significantly, to 67.3% from 84.2% in the first half of 2019. In April and May we were carrying an average of only around 500 passengers a day.

We introduced substantial ASK capacity reductions in the first six months of 2020, amounting to 29% in February, 73% in March, and 97% in April and May. In June, we began to add capacity back as COVID-19 in Hong Kong stabilised and restrictions on transit traffic were relaxed from the beginning of the month. Overall, capacity was down 65.7% for the first six months of 2020 compared to the same period in 2019.

Cargo yield increased by 44.1% to HK\$2.71 in the first six months of the year. There was an imbalance between capacity and demand in the cargo market, which led to higher cargo revenues compared to the first half of 2019. Cargo revenue in the first half of 2020 was HK\$11,177 million, an increase of 8.8% compared to the same period in 2019. AFTK capacity decreased by 31.0%, reflecting the considerable loss of available capacity as a result of the extensive cuts to our passenger schedule. Typically, approximately half of our cargo is carried in the bellies of our passenger aircraft. As a result, overall tonnage carried decreased by 31.9% to 667 thousand tonnes. The load factor increased 5.9 percentage points to 69.3%.

We introduced additional cargo-carrying capacity wherever possible. We increased the utilisation of our freighters. We chartered flights from our all-cargo subsidiary Air Hong Kong. We operated 2,228 pairs of cargo-only passenger flights between March and June. At the end of April, we started to carry cargo in the passenger cabins of Boeing 777-300ER aircraft. This increased their cargo-carrying capacity by 5-9%.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) decreased by HK\$9,069 million (or 62.8%) compared with the first half of 2019, reflecting a 22.4% decrease in average into-plane fuel prices and a 51.8% decrease in consumption. The benefits of the substantial decrease in fuel prices were limited (because the airlines flew much less) and were offset by losses on fixed volume fuel hedges. After taking fuel hedging into account, fuel costs decreased by HK\$7,640 million (or 52.6%) compared with the first half of 2019. Fuel consumption per available tonne kilometre fell by 8.5%.

Disregarding the effect of foreign currency movements and exceptional items (including impairments), there was a 34.1% increase in non-fuel costs per available tonne kilometre to HK\$2.99, reflecting the effect of reducing capacity when some costs are fixed or semi-variable. We implemented numerous cash-preservation measures. These included significant capacity reductions, executive pay cuts, two voluntary special leave schemes (with an uptake of 80% and 90% respectively), suspension of projects and non-essential expenditure, concessions from suppliers and deferral of payments to them, and closure of outport crew bases. We reached agreement with Airbus to defer delivery of our A350-900's and A350-1000's from 2020 and 2021 to 2020-2023, and of our A321neo's from 2020-2023 to 2020-2025. Advanced negotiations are taking place with Boeing for the deferral of B777-9 deliveries. This deferral of deliveries is expected to produce cash savings to the Cathay Pacific Group in the short to medium term.

Business performance of other subsidiaries and associates

The contribution from our subsidiaries was generally weaker. This was partly due to an impairment of the asset carrying values of Vogue Laundry Service and Cathay Pacific Catering Services.

HK Express reported a significant loss for the first half of 2020. It stopped flying in mid-March because of COVID-19 and associated travel restrictions, and has only recently reintroduced some flights.

Air Hong Kong recorded a profit during the first six months of the year. As noted above, there was an imbalance between capacity and demand in the cargo market. The Air Hong Kong aircraft provided additional cargo capacity for the Group.

The Group's share of the results of Air China (in which the Cathay Pacific Group had an 18.13% interest at 30th June 2020) is based on its financial statements drawn up three months in arrears. Consequently the 2020 interim results include Air China's results for the six months ended 31st March 2020, adjusted for any significant events or transactions for the period from 1st April 2020 to 30th June 2020. The results do not reflect the impact of COVID-19 on Air China from 1st April 2020 to 30th June 2020. Air China's financial results declined in the six months to 31st March 2020.

In the first half of 2020, Air China Cargo's profit was higher than in the first half of 2019.

Prospects

The International Air Transport Association (IATA) has released analysis indicating that the COVID-19 crisis will see global airline passenger revenues drop by US\$371 billion in 2020, a 61% decline compared to 2019, and estimates airline industry net losses to be US\$84 billion. Airlines in Asia Pacific will see the largest share of losses (US\$29 billion) and will experience a 54% fall in passenger demand year-on-year. Most industry analysts are forecasting very gradual recoveries over a protracted period, and IATA is forecasting that it will be 2024 at the earliest before international passenger demand returns to pre-crisis levels. Not only that, but with a global recession looming, and geopolitical tensions intensifying, trade will likely come under significant pressure, and this is expected to have a negative impact on both air travel and cargo demand. This is the biggest challenge to the aviation industry that Cathay Pacific has ever witnessed. We do not expect to see a meaningful recovery in our passenger business for some time to come. We will continue to closely monitor market demand as we work towards progressively reintroducing passenger flights as appropriate.

By the fourth quarter of 2020, Cathay Pacific's management will recommend to the Board the optimum size and shape of the Cathay Pacific Group to meet the air travel needs of Hong Kong while meeting its responsibilities to its shareholders. Inevitably this will involve rationalisation of future planned capacity compared to pre-crisis plans, taking into account the market outlook and cost structure at that time.

Patrick Healy

Chairman

Hong Kong, 12th August 2020

Review of Operations

Capacity, Load Factor and Yield – Cathay Pacific and Cathay Dragon

	Capacity			Load factor (%)			Yield
	ASK/AFTK (million)*			2020	2019	Change	Change
	2020	2019	Change	2020	2019	Change	Change
Passenger services							
Americas	7,640	21,493	-64.5%	69.1	85.8	-16.7%pt	+7.3%
Europe	5,545	16,767	-66.9%	67.9	86.3	-18.4%pt	+1.3%
Southwest Pacific	4,386	9,387	-53.3%	70.7	85.4	-14.7%pt	+6.1%
North Asia	4,214	16,108	-73.8%	65.6	80.4	-14.8%pt	+1.5%
Southeast Asia	3,668	10,709	-65.7%	62.9	83.3	-20.4%pt	+8.0%
South Asia, Middle East and Africa	2,279	6,350	-64.1%	63.6	83.4	-19.8%pt	-1.3%
Overall	27,732	80,814	-65.7%	67.3	84.2	-16.9%pt	+1.1%
Cargo services	5,958	8,635	-31.0%	69.3	63.4	+5.9%pt	+44.1%

* Capacity is measured in available seat kilometres (“ASK”) for passenger services and available cargo tonne kilometres (“AFTK”) for cargo services.

Passenger Services

Home market – Hong Kong and Greater Bay Area

- In the first three weeks of January, we saw a small amount of growth in outbound Hong Kong passengers, largely due to the early start of the Chinese New Year holiday. Outbound travel dropped significantly after the holiday period.
- From late February, a modified service was introduced in our lounges to have food individually served or portioned as a precautionary health and safety measure.
- On 17th February, we temporarily closed The Bridge, The Deck and The Pier First Class Lounges at Hong Kong International Airport until further notice. On 26th March, The Pier Business Class Lounge was also temporarily closed until further notice.
- As of 1st April, all lounges across our network have been temporarily closed until further notice, with the exception of The Wing at Hong Kong International Airport and the Cathay Pacific Lounge at Shanghai Pudong International Airport.
- A modified inflight service was introduced on all flights to strengthen health and safety protocols.
- As of 10th April, the In-Town Check-in service at Hong Kong and Kowloon Airport Express Stations has been suspended.

Americas

- To cater to a temporary increase in demand, we added capacity on flights to Hong Kong from Los Angeles, Seattle and San Francisco, and reinstated two flights to Hong Kong from New York (JFK) and Boston between 16th and 28th March.
- From April until late June, Cathay Pacific’s Los Angeles and Vancouver flights were reduced to twice per week. All other flights serving the Americas were temporarily suspended during this time.
- In late June, Cathay Pacific reinstated three weekly flights to San Francisco and New York (JFK), and increased flights to Los Angeles and Vancouver to five times per week. All other flights serving the Americas remained temporarily suspended.

Europe

- To cater to a temporary increase in demand, we reinstated nine flights from London (Heathrow) and two from Manchester to Hong Kong between 17th and 21st March.
- From April until late June, Cathay Pacific’s London (Heathrow) flights were reduced to twice per week. All other flights serving Europe were temporarily suspended during this time.
- In late June, Cathay Pacific reinstated two weekly flights to Amsterdam, and increased flights to London (Heathrow) to five times per week. All other flights serving Europe remained temporarily suspended.

Southwest Pacific

- From April until mid-to-late June, Cathay Pacific's Sydney flights were reduced to twice per week. All other flights serving the Southwest Pacific were temporarily suspended during this time.
- In mid-to-late June, Cathay Pacific reinstated two weekly flights to Melbourne and increased flights to Sydney to four times per week. All other flights serving the Southwest Pacific remained temporarily suspended.

North Asia

- On 24th January, Cathay Dragon temporarily suspended flights to and from Wuhan until further notice. Throughout February and March, Cathay Pacific and Cathay Dragon progressively reduced passenger capacity on flights to and from the Chinese mainland by about 90%.
- From April until late June, Cathay Pacific's Tokyo (Narita) and Taipei flights, and Cathay Dragon's Beijing and Shanghai (Pudong) flights were reduced to three times per week. All other flights serving North Asia were temporarily suspended during this time.
- In late June, Cathay Pacific increased flights to Taipei to four times per week. Flight frequency to Tokyo (Narita), Beijing and Shanghai (Pudong) remained at three times per week. All other flights serving North Asia remained temporarily suspended.

Southeast Asia

- From April until late June, Cathay Pacific's Bangkok, Jakarta, Manila and Singapore flights, and Cathay Dragon's Kuala Lumpur flights, were reduced to three times per week, and Cathay Pacific's Ho Chi Minh City flights were reduced to twice per week (increased to three times per week in May). All other flights serving Southeast Asia were temporarily suspended during this time.
- In late June, Cathay Pacific increased flights to Manila to once per day, and to Bangkok to five times per week. Flight frequency to Jakarta, Ho Chi Minh City, Singapore and Kuala Lumpur remained at three times per week. All other flights serving Southeast Asia remained temporarily suspended.

South Asia, Middle East and Africa

- From April, all flights serving South Asia, Middle East and Africa have been temporarily suspended until further notice.

Cargo Services

- Demand was strong in the first three weeks of January, but dropped significantly as manufacturing came to a halt in the Chinese mainland during the Chinese New Year holiday. The delayed resumption of manufacturing significantly affected our Hong Kong and Chinese mainland markets, with outbound demand only beginning to recover by mid-February.
- In February, we saw an overflow of demand for cargo services into the Chinese mainland and Hong Kong, in particular for pharmaceutical-related orders involving medical equipment such as face masks and coverings, hand sanitiser and personal protective equipment.
- In March, exports from Hong Kong and the Chinese mainland rebounded as production resumed; however, other trans-shipments were negatively impacted by lockdowns around the world, in particular on the India sub-continent.
- Demand for medical equipment and pharmaceuticals remained high from March onwards, while the volume of consumer goods such as garments and automobile parts declined.
- In April, overall tonnage dropped by a third compared to March as our passenger network further contracted. Lockdown measures around the world also hindered the movement of certain cargo such as perishables, seafood, live animals, industrial parts and equipment.
- On 23rd April, Cathay Pacific began operating flights with cargo securely carried in the passenger cabins for the first time after obtaining special approval from the Hong Kong Civil Aviation Department to do so aboard our Boeing 777-300ER passenger aircraft. This enables the aircraft to carry about seven tonnes of incremental weight, increasing cargo-carrying capacity by 5-9% on each aircraft.

- In May, significant effort was made to prioritise capacity for routings with the highest airfreight demand, most notably to the Americas, Australia and Europe.
- To meet increased airfreight demand amid the global reduction in available cargo capacity, we sourced additional capacity from our subsidiary Air Hong Kong and mounted additional freighter services. We also operated a total of 2,243 pairs of cargo-only passenger flights throughout the first half of the year. As of 30th June 2020, a regular schedule of cargo-only passenger flights to 51 major destinations had been reinstated.
- In June, Cathay Pacific continued to operate a full freighter schedule as well as chartered flights from Air Hong Kong, though there were fewer cargo-only passenger flights compared with May. Cargo tonnage fell slightly month-on-month as demand for medical supplies waned following a peak month in May, and yields came down following the significant rise seen that month.

Fleet development

- At 30th June 2020, Cathay Pacific operated 152 aircraft, Cathay Dragon operated 48 aircraft, HK Express operated 24 aircraft, and Air Hong Kong operated 11 aircraft (a total of 235 aircraft).
- Given current conditions we have decided to transfer approximately a third of our passenger aircraft to parking locations outside of Hong Kong over the coming months in keeping with prudent operational and asset management considerations. This is subject to change as we continue to reassess our passenger flight capacity.

Fleet profile*

Aircraft type	Number at 30th June 2020			Total	Average age	Orders			Total	Expiry of operating leases**							
	Leased**					'20	'21	'22 and beyond		'20	'21	'22	'23	'24	'25 and beyond		
	Owned	Finance	Operating														
Aircraft operated by Cathay Pacific:																	
A330-300	17	10	1	28	12.7								1 ^(a)				
A350-900	18	4	2	24	3.1	3	1	2	6								2
A350-1000	9	3		12	1.6	1	2	3	6								
747-400ERF		6		6	11.5												
747-8F	3	11		14	7.4												
777-300	17			17	18.7												
777-300ER	22	8	21	51	8.3							6	4	2	3	6	
777-9								21	21								
Total	86	42	24	152	8.9	4	3	26	33	1	6	4	2	3	3	8	
Aircraft operated by Cathay Dragon:																	
A320-200	5		9	14	14.5							3	3	3			
A321-200	2		6	8	17.6							1	2	2	1		
A321-200neo						2	4	10	16								
A330-300	21 ^(b/c)		5	26	15.9							1					4
Total	28		20	48	15.8	2	4	10	16	5	5	5	1			4	
Aircraft operated by HK Express:																	
A320-200			8	8	10.7							3		1	4		
A320-200neo			5	5	3.0	4	1		5 ^(d)								5
A321-200			11	11	2.7												11
A321-200neo								16 ^(e)	16								
Total			24	24	5.4	4	1	16	21	3			1	4	16		
Aircraft operated by Air Hong Kong***:																	
A300-600F			9	9	16.1							5	3				1
A330-243F			1	1	7.1												1
A330-300P2F			1	1	24.6							1					
Total			11	11	16.1							6	3				2
Grand total	114	42	79	235	10.3	10	8	52	70	6	14	15	7	7	30		

* The table does not reflect aircraft movements after 30th June 2020.

** 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.

*** The nine Airbus A300-600F, one Airbus A330-243F and one A330-300P2F freighters are considered to be operated by Air Hong Kong, even though the arrangement does not constitute a lease in accordance with HKFRS 16.

- (a) The operating lease of one Airbus A330-300 aircraft expired in July 2020. The aircraft was returned to its lessor.
- (b) 11 of these aircraft are owned by Cathay Pacific and leased by Cathay Dragon.
- (c) One Airbus A330-300 aircraft was deregistered in August 2020.
- (d) These aircraft are subject to operating leases.
- (e) These aircraft, ordered by Cathay Dragon, will be operated by HK Express.

Financial Review

Revenue

	Group			Cathay Pacific and Cathay Dragon		
	Six months ended 30th June			Six months ended 30th June		
	2020 HK\$M	2019 HK\$M	Change	2020 HK\$M	2019 HK\$M	Change
Passenger services	11,056	37,449	-70.5%	10,396	37,449	-72.2%
Cargo services	12,692	11,498	+10.4%	11,177	10,275	+8.8%
Other services and recoveries	3,921	4,600	-14.8%	3,752	4,126	-9.1%
Total revenue	27,669	53,547	-48.3%	25,325	51,850	-51.2%

Cathay Pacific and Cathay Dragon

Passenger revenue decreased by 72.2% compared with a 72.6% decrease in capacity. Cargo revenue increased by 8.8%, compared with a 24.6% decrease in capacity. Revenue from other services and recoveries decreased by 9.1%.

Operating expenses

	Group			Cathay Pacific and Cathay Dragon		
	Six months ended 30th June			Six months ended 30th June		
	2020 HK\$M	2019 HK\$M	Change	2020 HK\$M	2019 HK\$M	Change
Staff	8,623	10,133	-14.9%	7,420	9,042	-17.9%
Inflight service and passenger expenses	949	2,682	-64.6%	941	2,682	-64.9%
Landing, parking and route expenses	4,242	8,635	-50.9%	3,861	8,451	-54.3%
Fuel, including hedging losses	7,318	14,807	-50.6%	6,884	14,524	-52.6%
Aircraft maintenance	3,673	4,708	-22.0%	3,193	4,592	-30.5%
Aircraft depreciation and rentals	6,163	5,944	+3.7%	5,766	5,945	-3.0%
Other depreciation, amortisation and rentals	1,415	1,392	+1.7%	985	972	+1.3%
Commissions	125	503	-75.1%	125	503	-75.1%
Others	1,431	2,269	-36.9%	1,766	2,991	-41.0%
Operating expenses	33,939	51,073	-33.5%	30,941	49,702	-37.7%
Net finance charges	1,652	1,420	+16.3%	1,327	1,241	+6.9%
Total operating expenses	35,591	52,493	-32.2%	32,268	50,943	-36.7%

- The Group's total operating expenses decreased by 32.2% (with the combined Cathay Pacific and Cathay Dragon operating expenses decreasing by 36.7%).
- The cost per ATK (with fuel, excluding impairment and related charges) of Cathay Pacific and Cathay Dragon increased from HK\$3.12 to HK\$3.75, an increase of 20.2%.
- The cost per ATK (without fuel, excluding impairment and related charges) of Cathay Pacific and Cathay Dragon increased from HK\$2.23 to HK\$2.95, an increase of 32.3%.
- The underlying cost per ATK (without fuel), which excludes exceptional items and impairment and related charges, and adjusts for the effect of foreign currency movements, increased from HK\$2.23 to HK\$2.99, an increase of 34.1%.

Operating results analysis

	Six months ended 30th June		
	2020 HK\$M	2019 HK\$M	Change HK\$M
Cathay Pacific and Cathay Dragon's (loss)/profit before exceptional items, impairment and related charges and taxation	(6,903)	966	-7,869
Exceptional items*	(40)	(59)	+19
Impairment and related charges**	(1,281)	-	-1,281
Taxation**	863	(232)	+1,095
Cathay Pacific and Cathay Dragon's (loss)/profit after taxation	(7,361)	675	-8,036
Share of (losses)/profits from subsidiaries and associates**	(2,504)	672	-3,176
(Loss)/profit attributable to the shareholders of Cathay Pacific	(9,865)	1,347	-11,212

* Exceptional items in 2020 included redundancy costs of HK\$42 million in connection with the closure of outport crew bases and HK\$2 million credit associated with the acquisition of HK Express (2019: data security costs of HK\$20 million and costs of HK\$39 million associated with the acquisition of HK Express).

** The loss attributable to shareholders includes impairment and related charges of HK\$2,465 million. This comprises HK\$1,242 million in connection with 16 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors, together with HK\$658 million and HK\$526 million for our laundry and catering plants respectively, and HK\$39 million of associated goodwill. Thereon is a net tax credit of HK\$208 million offset by an Air China cross shareholding effect of HK\$117 million.

The movement in the Cathay Pacific and Cathay Dragon's profit/loss before exceptional items, impairment and related charges and taxation (isolating foreign currency movements) can be analysed as follows:

	Reported HK\$M	Currency movement HK\$M	Adjusted HK\$M	ATK unit* % change	Note
2019 Cathay Pacific and Cathay Dragon's profit before exceptional items, impairment and related charges and taxation	966		966		
Changes:					
- Passenger and Cargo revenue	(26,151)	475	(25,676)	-12.3%	1
- Other services and recoveries	(374)	27	(347)	+73.9%	2
- Staff	1,664	(40)	1,624	+55.8%	3
- Inflight service and passenger expenses	1,741	(7)	1,734	-32.9%	4
- Landing, parking and route expenses	4,590	(58)	4,532	-12.0%	5
- Fuel, including hedging losses	7,640	(58)	7,582	-9.3%	6
- Aircraft maintenance	1,399	(22)	1,377	+32.9%	7
- Owning the assets**	80	(30)	50	+88.7%	8
- Other items (including commissions)	1,542	(217)	1,325	+16.5%	9
2020 Cathay Pacific and Cathay Dragon's loss before exceptional items, impairment and related charges and taxation	(6,903)	70	(6,833)		

* ATK unit % change represents the adjusted revenue or cost component change per ATK.

** includes aircraft and other depreciation, rentals and net finance charges.

Notes:

- As per Review of Operations section for passenger and cargo services.
- Decreases in Asia Miles revenues, cargo handling, and passenger related recoveries. Partially offset by income from COVID-19 government concessions.
- Staff costs lower due to the introduction of Special Level Schemes, however the decline was less than the significant drop in ATK.
- Savings in inflight catering and inflight sales costs as RPK reduction higher than ATK reduction.
- Lower as a result of reduced operations and government concessions.
- Fuel costs decreased due to a 22.4% fall in the average into-plane fuel price, partially offset by fuel hedging losses.
- Higher per-unit costs due to continuing necessary scheduled maintenance activities.
- Increase in aircraft depreciation and net finance costs due to new aircraft deliveries in the second half of 2019, partly offset by lower interest rates, fewer aircraft leased and the cessation of the Atlas (5Y) contract.
- Decreased sales, distribution and marketing costs and Asia Miles costs, however a portion of fixed overhead costs remained, increasing per unit costs.

Fuel expenditure and hedging

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

	Six months ended 30th June	
	2020 HK\$M	2019 HK\$M
Gross fuel cost	5,719	14,693
Fuel hedging losses	1,599	114
Fuel cost	7,318	14,807

Fuel costs decreased due to a 22.4% fall in the average into-plane fuel price, together with a 49.4% decrease in consumption.

Financial position

- Additions to property, plant and equipment during the six months period to 30th June 2020 were HK\$1,545 million, comprising HK\$1,321 million in respect of aircraft and related equipment, HK\$168 million in respect of land and buildings and HK\$56 million in respect of other equipment.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars and Japanese yen, and are fully repayable by 2035, with 46.5% currently at fixed rates of interest after taking into account derivative transactions. Excluding lease liabilities previously classified as operating leases, borrowings are fully repayable by 2035, with 36.8% at fixed rates of interest with a similar currency profile.
- Available unrestricted liquidity at 30th June 2020 totalled HK\$15,432 million, comprising liquid funds of HK\$7,355 million (35.9% of which are denominated in United States dollars) and committed undrawn facilities of HK\$8,220 million, less pledged funds of HK\$143 million.
- Net borrowings (after deducting liquid funds) increased by 12.9% to HK\$93,033 million. Disregarding the effect of adopting HKFRS 16, net borrowings increased by 18.7% to HK\$74,089 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 21.3% to HK\$49,371 million. This was due to the Group's loss for the period and movements in the cash flow hedge reserves reflecting mark to market valuation losses.
- Disregarding the effect of adopting HKFRS 16 on net borrowings, the net debt/equity ratio increased from 0.99 times to 1.50 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 1.31 and 1.88 times at 31st December 2019 and 30th June 2020 respectively.
- Proceeds from the rights issue of HK\$11.7 billion and the issue of preference shares of HK\$19.5 billion, as announced as part of a HK\$39.0 billion recapitalisation, were received on 11th and 12th August 2020 respectively. Had these issues occurred at 30th June 2020, the net debt/equity ratio would have been 0.53 before, and 0.77 after, the effect of adopting HKFRS 16 on net borrowings respectively.
- The Group's policies in relation to financial risk management and the management of currency, interest rate and fuel price exposures are set out in the 2019 Annual Report.

Review of other subsidiaries and associates

- From 23rd March to 1st August 2020, Hong Kong Express Airways Limited (“HK Express”) temporarily suspended flight operations, in response to significantly reduced travel demand and travel restrictions imposed by governments around Asia Pacific due to the COVID-19 pandemic. In the first half of 2020, capacity amounted to 1,726 million available seat kilometres, reflecting the airline’s temporary suspension of flight operations. The average load factor was 85.7% during the period. HK Express recorded a significant after-tax loss of HK\$779 million in the first six months of 2020.
- AHK Air Hong Kong Limited recorded an increase in profit in the first half of 2020 compared with the first half of 2019.
- Cathay Pacific Catering Services (H.K.) Limited (“CPCS”)’s loss in the first half of 2020 was materially worse compared with the first half of 2019 due to significantly lower meal and an impairment charge of HK\$526 million related to the plant. The profits of the flight kitchens outside Hong Kong in the first half of 2020 decreased significantly compared with the first half of 2019.
- The financial results of Cathay Pacific Services Limited in the first half of 2020 declined compared with the first half of 2019. This was mainly due to lower tonnage being handled.
- The financial results of Hong Kong Airport Services Limited for the first half of 2020 were adversely affected. The focus of the business was to reduce operating costs, defer or cancel capital expenditure and seek relevant subsidies to preserve cash.
- The financial results of Vogue Laundry Service Limited (“VLS”) in the first half of 2020 declined compared with that of 2019 mainly due to lower volume of laundry items handled and an impairment charge of HK\$658 million related to the plant.
- The Group’s share of Air China Limited’s (“Air China”) results is based on its financial statements drawn up three months in arrear. Consequently the 2020 interim results include Air China’s results for the six months ended 31st March 2020, adjusted for any significant events or transactions for the period from 1st April 2020 to 30th June 2020. Its result therefore includes a cross shareholding adjustment of HK\$117 million for the impairment charges recognised by Cathay Pacific and its subsidiaries. For the six months ended 31st March 2020, Air China’s financial results declined compared to those for the six months ended 31st March 2019.
- Air China Cargo Co., Ltd. (“Air China Cargo”), in which Cathay Pacific owns an equity and an economic interest totalling 34.78%, is the leading provider of air cargo services in the Chinese mainland. Despite a substantial reduction of the belly capacity of passenger aircraft as a result of the COVID-19 pandemic, higher utilisation of freighters, significantly improved yields and lower fuel prices resulted in Air China Cargo’s financial results for the first half of 2020 being significantly better than same period last year.

Corporate responsibility

- Cathay Pacific participates in the International Civil Aviation Organization (ICAO) Working Group 4 task force that leads the aviation industry's work in developing proposals for a fair, equitable and effective global agreement on emissions. We also take part in the ICAO Fuel Task Group which specialises in the adoption of biofuel for aviation use.
- Cathay Pacific engages with regulators and groups (the IATA Sustainability and Environment Advisory Committee, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the Association of Asia Pacific Airlines) involved in shaping aviation policy with respect to climate change. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- In response to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), the Cathay Pacific Group has completed all the necessary preparation and the monitoring, verification and reporting plan has been accepted by the authority.
- In compliance with the European Union's Emissions Trading Scheme, our 2019 emissions data from intra-EU flights were reported on by an external auditor and submitted to the UK Environment Agency in March 2020.
- We have introduced two new projects as part of the Fly Greener voluntary carbon offset programme. Both projects are certified by independent third party and meeting 'Gold Standard' for the Global Goals. Since the programme was launched in 2007, over 200,000 tonnes of CO₂ has been offset.
- In January 2020, we announced three new Cathay ChangeMakers for 2020 – individuals who have made significant contributions to environmental protection, youth development and cultural inclusion, which are three key pillars of our community engagement strategy. Cathay Pacific works with its ChangeMakers to help create shared values and enact positive social change.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Since its introduction in 1991, HK\$193 million has been raised through the programme.
- At 30th June 2020, the Cathay Pacific Group employed more than 33,000 people worldwide. Around 27,600 of these people are based in Hong Kong. Cathay Pacific and Cathay Dragon employed more than 26,500 permanent staff worldwide. Around 80% of these people are based in Hong Kong. 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.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2020 - Unaudited

	Note	2020 HK\$M	2019 HK\$M
Revenue			
Passenger services		11,056	37,449
Cargo services		12,692	11,498
Other services and recoveries		3,921	4,600
Total revenue		27,669	53,547
Expenses			
Staff		(8,623)	(10,133)
Inflight service and passenger expenses		(949)	(2,682)
Landing, parking and route expenses		(4,242)	(8,635)
Fuel, including hedging losses		(7,318)	(14,807)
Aircraft maintenance		(3,673)	(4,708)
Aircraft depreciation and rentals		(6,163)	(5,944)
Other depreciation, amortisation and rentals		(1,415)	(1,392)
Commissions		(125)	(503)
Others		(1,431)	(2,269)
Operating expenses		(33,939)	(51,073)
Impairment and related charges	14	(2,465)	-
Operating (loss)/profit	4	(8,735)	2,474
Finance charges		(1,717)	(1,617)
Finance income		65	197
Net finance charges		(1,652)	(1,420)
Share of (losses)/profits of associates		(526)	648
(Loss)/profit before taxation		(10,913)	1,702
Taxation	5	1,049	(355)
(Loss)/profit for the period		(9,864)	1,347
Non-controlling interests		(1)	-
(Loss)/profit attributable to the shareholders of Cathay Pacific		(9,865)	1,347
(Loss)/earnings per share (basic and diluted)	6	(250.8)¢	34.2¢
(Loss)/profit for the period		(9,864)	1,347
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		(2,884)	671
Share of other comprehensive income of associates		(210)	(258)
Exchange differences on translation of foreign operations		(443)	(22)
Items that may not be reclassified subsequently to profit or loss:			
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		-	25
Other comprehensive income for the period, net of taxation	7	(3,537)	416
Total comprehensive income for the period		(13,401)	1,763
Total comprehensive income attributable to			
Shareholders of Cathay Pacific		(13,402)	1,763
Non-controlling interests		1	-
		(13,401)	1,763

Consolidated Statement of Financial Position

at 30th June 2020 - Unaudited

	Note	30th June 2020 HK\$M	31st December 2019 HK\$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Property, plant and equipment		132,936	140,114
Intangible assets		15,069	15,151
Investments in associates		25,746	27,055
Other long-term receivables and investments		3,355	3,823
Deferred tax assets		1,632	1,089
		178,738	187,232
Interest-bearing liabilities	10	(76,479)	(76,508)
Other long-term payables		(5,045)	(4,806)
Deferred tax liabilities		(12,556)	(13,564)
		(94,080)	(94,878)
Net non-current assets		84,658	92,354
Current assets and liabilities			
Stock		1,829	1,812
Trade and other receivables	8	7,010	10,608
Liquid funds	9	7,355	14,864
		16,194	27,284
Interest-bearing liabilities	10	(23,909)	(20,752)
Trade and other payables	11	(16,619)	(18,218)
Contract liabilities		(9,397)	(15,941)
Taxation		(1,552)	(1,951)
		(51,477)	(56,862)
Net current liabilities		(35,283)	(29,578)
Total assets less current liabilities		143,455	157,654
Net assets		49,375	62,776
CAPITAL AND RESERVES			
Share capital	12	17,106	17,106
Reserves		32,265	45,667
Funds attributable to the shareholders of Cathay Pacific		49,371	62,773
Non-controlling interests		4	3
Total equity		49,375	62,776

Consolidated Statement of Cash Flows

for the six months ended 30th June 2020 - Unaudited

	2020 HK\$M	2019 HK\$M
Operating activities		
Cash generated from operations	(6,285)	11,425
Interest received	50	95
Interest paid	(1,278)	(1,496)
Tax paid	(604)	(156)
Net cash (outflow)/inflow from operating activities	(8,117)	9,868
Investing activities		
Net decrease in liquid funds other than cash and cash equivalents	4,758	223
Proceeds from sales of property, plant and equipment	57	23
Net increase in other long-term receivables and investments	(10)	(2,252)
Payments for property, plant and equipment and intangible assets	(1,652)	(7,654)
Dividends received from associates	4	14
Net cash inflow/(outflow) from investing activities	3,157	(9,646)
Financing activities		
New financing	17,020	6,971
Loan and lease repayments	(14,756)	(9,027)
Dividends paid - to the shareholders of Cathay Pacific	-	(787)
- to non-controlling interests	-	(1)
Net cash inflow/(outflow) from financing activities	2,264	(2,844)
Decrease in cash and cash equivalents	(2,696)	(2,622)
Cash and cash equivalents at 1st January	8,881	7,653
Effect of exchange differences	(61)	(9)
Cash and cash equivalents at 30th June	6,124	5,022

Notes:**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 12th August 2020.

The financial information relating to the year ended 31st December 2019 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 2019 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 financial statements are consistent with those described in the 2019 annual financial statements except for changes in accounting policies in note 2 below.

Accounting policy adopted for government grants is as follows:

Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Income grants are presented as revenue from other services and recoveries.

Cost waivers or cost reductions are disclosed net of respective cost categories and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Grants that compensate for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2. Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") for the current accounting period of the Group.

- Amendments to HKFRS 3 "Definition of a Business"
- Amendment to HKFRS 16 "COVID-19-Related Rent Concessions" (effective for annual periods beginning on or after 1st June 2020)

Amendments to HKFRS 3 have no impact on the results and financial position of the Group.

The Group has early adopted the amendment to HKFRS 16. The Group has not early adopted any other new standards or interpretations that are not yet effective for the current accounting period.

2. Changes in accounting policies (continued)

Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendment and has applied the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see note 14 below). There is no impact on the opening balance of equity at 1st January 2020.

3. Segment information

(a) Segment results

	Six months ended 30th June 2020					
	Cathay Pacific and Cathay Dragon 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	25,179	844	1,332	314		27,669
Inter-segment sales	146	-	43	1,052		1,241
Segment revenue	25,325	844	1,375	1,366		28,910
Segment (loss)/profit, before impairment and related charges	(5,616)	(678)	434	(410)		(6,270)
Impairment and related charges	(1,281)	-	-	(1,184)		(2,465)
Segment (loss)/profit	(6,897)	(678)	434	(1,594)		(8,735)
Net finance charges	(1,327)	(140)	-	(185)		(1,652)
	(8,224)	(818)	434	(1,779)		(10,387)
Share of losses of associates	-	-	-	-	(526)	(526)
(Loss)/profit before taxation	(8,224)	(818)	434	(1,779)	(526)	(10,913)
Taxation	863	39	(71)	101	117	1,049
(Loss)/profit for the period	(7,361)	(779)	363	(1,678)	(409)	(9,864)
Non-controlling interests	-	-	-	(1)	-	(1)
(Loss)/profit attributable to the shareholders of Cathay Pacific	(7,361)	(779)	363	(1,679)	(409)	(9,865)

	Six months ended 30th June 2019					
	Cathay Pacific and Cathay Dragon 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	51,762	-	1,222	563		53,547
Inter-segment sales	88	-	2	1,753		1,843
Segment revenue	51,850	-	1,224	2,316		55,390
Segment profit/(loss)	2,148	-	398	(72)		2,474
Net finance charges	(1,241)	-	-	(179)		(1,420)
	907	-	398	(251)		1,054
Share of profits of associates	-	-	-	-	648	648
Profit/(loss) before taxation	907	-	398	(251)	648	1,702
Taxation	(232)	-	(65)	2	(60)	(355)
Profit/(loss) for the period	675	-	333	(249)	588	1,347
Non-controlling interests	-	-	-	-	-	-
Profit/(loss) attributable to the shareholders of Cathay Pacific	675	-	333	(249)	588	1,347

3. Segment information (continued)

- (i) Cathay Pacific and Cathay Dragon provide full service international passenger and cargo air transportation under the Cathay Pacific and Cathay Dragon brands. 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 changed in the year ended 31st December 2019 following the acquisition of HK Express in July 2019. Reportable segments are aligned with financial information provided regularly to the Group's executive management. As a result, the previously reported segment results for the six months ended 30th June 2019 have been restated to be comparable with the revised segmentation approach as required by HKFRS 8 "Operating Segments".

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

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 "Revenue from Contracts with Customers" to its sales contracts such that the Group does not disclose the amount of the transaction price allocated to the remaining performance obligations when the performance obligation is part of a contract that has an original expected duration of one year or less.

(b) Geographical information

	Six months ended 30th June	
	2020 HK\$M	2019 HK\$M
Revenue by origin of sale:		
North Asia		
- Hong Kong and the Chinese mainland	16,785	26,352
- Japan, Korea and Taiwan	1,907	5,113
Americas	2,919	7,463
Europe	1,946	5,317
Southeast Asia	1,939	3,924
Southwest Pacific	1,072	2,732
South Asia, Middle East and Africa	1,101	2,646
	27,669	53,547

A geographic analysis of segment results is not disclosed for the reasons set out in the 2019 Annual Report.

4. Operating (loss)/profit

	Six months ended 30th June	
	2020 HK\$M	2019 HK\$M
Operating (loss)/profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
- right-of-use assets	3,105	2,730
- owned	4,080	3,810
Amortisation of intangible assets	284	278
Impairment		
- property, plant and equipment	2,396	-
- intangible assets	39	-
Expenses relating to short-term leases	8	113
Loss on disposal of property, plant and equipment, net	1	33
Loss on disposal of intangible assets	-	9
Cost of stock expensed	567	1,157
Exchange differences, net	(245)	2
Auditors' remuneration	9	8
Dividend income from unlisted investments	(44)	(45)

5. Taxation

	Six months ended 30th June	
	2020 HK\$M	2019 HK\$M
Current tax expenses		
- Hong Kong profits tax	71	73
- overseas tax	60	133
- under provisions for prior years	27	7
Deferred tax		
- origination and reversal of temporary differences	(1,207)	142
	(1,049)	355

Hong Kong profits tax is calculated at 16.5% (2019: 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 20(c) to the financial statements in the 2020 Interim Report).

6. (Loss)/earnings per share (basic and diluted)

(Loss)/earnings per share is calculated by dividing the loss attributable to the ordinary equity shareholders of Cathay Pacific of HK\$9,865 million (2019: a profit of HK\$1,347 million) by the daily weighted average number of ordinary shares in issue throughout the period of 3,934 million (2019: 3,934 million) ordinary shares.

7. Other comprehensive income

	Six months ended 30th June	
	2020 HK\$M	2019 HK\$M
Cash flow hedges		
- (loss)/gain recognised during the period	(4,651)	1,049
- loss/(gain) transferred to profit or loss	1,420	(291)
- deferred taxation	347	(87)
Share of other comprehensive income of associates	(210)	(258)
Exchange differences on translation of foreign operations		
- loss recognised during the period	(443)	(22)
Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling)		
- gain recognised during the period	-	25
Other comprehensive income for the period	(3,537)	416

8. Trade and other receivables

	30th June 2020 HK\$M	31st December 2019 HK\$M
Trade debtors, net of loss allowances	2,441	5,559
Derivative financial assets - current portion	337	431
Other receivables and prepayments	4,223	4,567
Due from associates and other related companies	9	51
	7,010	10,608

	30th June 2020 HK\$M	31st December 2019 HK\$M
Analysis of trade debtors (net of loss allowances) by invoice date:		
Within one month	2,093	4,374
One to three months	104	713
More than three months	244	472
	2,441	5,559

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

9. Liquid funds

	30th June 2020 HK\$M	31st December 2019 HK\$M
Short-term deposits and bank balances	6,124	8,881
Short-term deposits maturing beyond three months when placed	235	719
Funds with investment managers		
- debt securities listed outside Hong Kong	846	5,079
- bank deposits	7	43
Other liquid investments		
- debt securities listed outside Hong Kong	5	5
- bank deposits	138	137
Liquid funds	7,355	14,864

9. Liquid funds (continued)

Included in other liquid investments are bank deposits of HK\$138 million (31st December 2019: HK\$137 million) and debt securities of HK\$5 million (31st December 2019: 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.

Available unrestricted funds to the Group are as follows:

	30th June 2020 HK\$M	31st December 2019 HK\$M
Liquid funds	7,355	14,864
Less amounts pledged as part of long-term financing		
- debt securities listed outside Hong Kong	(5)	(5)
- bank deposits	(138)	(137)
Committed undrawn facilities	8,220	5,289
Available unrestricted liquidity to the Group	15,432	20,011

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

10. Interest-bearing liabilities

	30th June 2020		31st December 2019	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Loans and other borrowings	16,792	45,717	13,634	43,134
Lease liabilities	7,117	30,762	7,118	33,374
	23,909	76,479	20,752	76,508

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.

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

	30th June 2020 HK\$M	31st December 2019 HK\$M
Non-current liabilities:		
Loans and other borrowings	45,717	43,134
Lease liabilities	30,762	33,374
	76,479	76,508
Current liabilities:		
Loans and other borrowings	16,792	13,634
Lease liabilities	7,117	7,118
	23,909	20,752
Total borrowings	100,388	97,260
Liquid funds less bank overdrafts	(7,355)	(14,864)
Net borrowings	93,033	82,396
Less lease liabilities without asset transfer components	(18,944)	(19,967)
Adjusted net borrowings, excluding leases without asset transfer components	74,089	62,429
Funds attributable to the shareholders of Cathay Pacific	49,371	62,773
Net debt/equity ratio	1.88	1.31
Adjusted net debt/equity ratio, excluding leases without asset transfer components	1.50	0.99

11. Trade and other payables

	30th June 2020	31st December 2019
	HK\$M	HK\$M
Trade creditors	5,270	8,448
Derivative financial liabilities – current portion	2,814	523
Other payables	7,414	8,968
Due to associates	428	125
Due to other related companies	693	154
	16,619	18,218

	30th June 2020	31st December 2019
	HK\$M	HK\$M
Analysis of trade creditors by invoice date:		
Within one month	3,859	8,018
One to three months	650	403
More than three months	761	27
	5,270	8,448

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

12. Share capital

	30th June 2020		31st December 2019	
	Number of shares	HK\$M	Number of shares	HK\$M
Ordinary shares, issued and fully paid				
At 30th June / 31st December	3,933,844,572	17,106	3,933,844,572	17,106

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's ordinary shares during the period (2019: nil). At 30th June 2020, 3,933,844,572 ordinary shares were in issue (31st December 2019: 3,933,844,572 ordinary shares).

13. Dividends

- (a) Dividends payable to ordinary equity shareholders attributable to the interim period.

	2020 HK\$M	2019 HK\$M
No first interim dividend proposed after the interim period (2019: HK\$0.18 per ordinary share)	-	708

The Directors decided not to declare a first interim dividend (2019: HK\$0.18 per ordinary share) for the year ending 31st December 2020. The interim dividend declared for the comparative period has not been recognised as a liability at the end of the comparative period.

- (b) Dividends payable to ordinary equity shareholders attributable to the previous financial year, approved and paid during the interim period.

	Six months ended 30th June	
	2020 HK\$M	2019 HK\$M
No second interim dividend in respect of the previous financial year, approved and paid during the six months ended 30th June 2020 (paid during the six months ended 30th June 2019: HK\$0.20 per ordinary share)	-	787

14. Impacts of COVID-19

The outbreak of COVID-19 in early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

In responding to the difficult environment, the Group implemented numerous cash-preservation measures. These included significant capacity reductions, executive pay cuts, two voluntary special leave schemes (with an uptake of 80% and 90% respectively), suspension of projects and non-essential expenditure, concessions from suppliers and deferral of payments to them, and closure of outport crew bases. The Group reached agreement with Airbus to defer delivery of the A350-900's and A350-1000's from 2020 and 2021 to 2020-2023, and of the A321neo's from 2020-2023 to 2020-2025. Advanced negotiations are taking place with Boeing for the deferral of B777-9 deliveries. This deferral of deliveries is expected to produce cash savings to the Group in the short to medium term. Despite all these measures, the drop in passenger revenue to around only 1% of prior year levels meant that the Group was initially losing cash at the operating level at a rate of HK\$2.5 billion to HK\$3.0 billion per month during February to April as it serviced a high level of customer refunds. This has subsequently reduced to a rate of approximately HK\$1.5 billion per month from May whilst minimal passenger services are in place.

Liquidity and going concern

On 9th June 2020, the Group announced a recapitalisation plan which will raise aggregate proceeds, before expenses, of approximately HK\$39.0 billion. The plan involves three components:

- (a) The Preference Shares and Warrants Issue, being the issuance by the Company to Aviation 2020 Limited (wholly-owned by the Financial Secretary Incorporated as established under the Financial Secretary Incorporation Ordinance (Cap. 1015)) of: (a) Preference Shares for an aggregate subscription price of HK\$19.5 billion; and (b) Warrants to subscribe for the Company's ordinary shares with an aggregate exercise price of approximately HK\$1.95 billion (subject to adjustment);

14. Impacts of COVID-19 (continued)

- (b) The Rights Issue, being a proposed rights issue of 2,503,355,631 Rights Shares on the basis of seven Rights Shares for every 11 existing ordinary shares held on the Rights Issue Record Date at a Rights Subscription Price of HK\$4.68 to raise aggregate proceeds of approximately HK\$11.7 billion; and
- (c) The Bridge Loan, being a committed bridge loan facility to be extended by Aviation 2020 Limited to the Company in an amount of HK\$7.8 billion.

The Bridge Loan facility was extended to the Company on 9th June 2020. Dealings in Rights Shares commenced on 11th August 2020. The Preference Shares and Warrants Issue is due to complete on 12th August 2020 (note 15 below, Events after the reporting period).

Taking into account the net proceeds from the above transactions and the Group's presently available financial resources, including internally generated funds from operations and available financial facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of publication of this interim financial report.

Asset carrying values

Following significant changes in the operating environment for the Group, management has reviewed the recoverable amounts of its cash generating units, aircraft assets and investments.

Impairment and related charges of HK\$2,465 million (pre-tax) was recognised for:

- (a) The reduction in asset values (HK\$1,212 million, note 9 to the financial statements in the 2020 Interim Report) on 16 aircraft that are unlikely to re-enter meaningful economic service again before retirement or return to lessors, and additional provision for fulfilling lease return conditions of leased aircraft included therein (HK\$30 million).
- (b) Impairments on goodwill (totalling HK\$39 million, note 10 to the financial statements in the 2020 Interim Report) and assets of CPCS and VLS (totalling HK\$1,184 million, note 9 to the financial statements in the 2020 Interim Report) to reduce the carrying values of assets to their estimated recoverable amounts; being the higher of fair value less costs of disposal and value in use.

The above excludes the cross shareholding effect with Air China.

Given uncertainties on COVID-19, the position will be reassessed at the year end.

Government grants and other assistance

The Group recognised HK\$1,060 million of government grants globally, mostly in relation to COVID-19. HK\$640 million in relation to income grants are presented as revenue from other services and recoveries. HK\$420 million in relation to cost reductions or waivers are presented net of respective cost categories.

COVID-19 related rent concessions

During the six months ended 30th June 2020, the Group received rent concessions in the form of a discount on fixed payments as a direct consequence of the COVID-19 pandemic.

The Group has early adopted the Amendment to HKFRS 16, COVID-19-Related Rent Concessions, and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

Rent concessions of HK\$123 million received have been accounted for as negative variable lease payments recognised in profit or loss. This amount includes concessions of HK\$107 million received from government vendors during the period and included as government grants and other assistance as disclosed above.

15. Events after the reporting period

The Rights Shares under the recapitalisation plan (note 14 above) were fully subscribed. Proceeds from the Rights Issue of HK\$11,716 million was received and dealings in Rights Shares commenced, on 11th August 2020 before the financial statements were authorised for issue.

The Rights Issue will increase the number of ordinary shares in issue of 3,933,844,572 at 30th June 2020 by 2,503,355,631 ordinary shares to a revised total of 6,437,200,203.

The Preference Shares and Warrants Issue is due to complete on 12th August 2020. The Preference Shares are expected to bring in HK\$19,500 million to the Group and will be recorded as equity within the consolidated statement of financial position.

The Rights Shares and Preference Shares Issue will be recorded as an increase in the Group's equity of HK\$31,216 million (before expenses).

16. Corporate governance

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

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

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

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

The 2020 interim results have been reviewed by the Audit Committee of the Company and by the external auditors. Details on Corporate Governance can be found in the 2019 Annual Report and in the 2020 Interim Report.

17. Interim report

The 2020 Interim Report containing all the information required by the Listing Rules will be published on the Stock Exchange's website and the Company's website (www.cathaypacific.com) on or before 27th August 2020. Printed copies will be dispatched to shareholders who have elected to receive printed copies on 28th August 2020.

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 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.

As at the date of this announcement, the Directors of Cathay Pacific are:

Executive Directors: Patrick Healy (Chairman), Gregory Hughes, Ronald Lam, Martin Murray, Augustus Tang;

Non-Executive Directors: Cai Jianjiang, Michelle Low, Song Zhiyong, Merlin Swire, Samuel Swire, Xiao Feng, Zhang Zhuo Ping, Zhao Xiaohang;

Independent Non-Executive Directors: Bernard Chan, John Harrison, Robert Milton and Andrew Tung.

By Order of the Board

Cathay Pacific Airways Limited

Patrick Healy

Chairman

Hong Kong, 12th August 2020

Website: www.cathaypacific.com

References in this document to Hong Kong are to Hong Kong SAR, to Macau are to Macao SAR and to Taiwan are to the Taiwan region.