



We aim to continue to improve our products and services on the ground and in the air, to strengthen our aircraft engineering business and to expand our fleet by acquiring fuel efficient aircraft.





Aviation Division

ADVANCING WORLD-CLASS SERVICE



AVIATION DIVISION

OVERVIEW OF THE BUSINESS

The Aviation Division comprises significant investments in the Cathay Pacific group and the Hong Kong Aircraft Engineering (“HAECO”) group.

The Cathay Pacific Group

The Cathay Pacific group includes Cathay Pacific Airways (“Cathay Pacific”), its wholly-owned subsidiary Hong Kong Dragon Airlines (“Dragonair”), its 60%-owned subsidiary AHK Air Hong Kong (“AHK”), an associate interest in Air China and an interest in the Air China Cargo jointly controlled entity. In addition, Cathay Pacific has interests in companies providing flight catering and ramp and cargo handling services and in an inventory technical management joint venture with HAECO. Cathay Pacific is listed on the Hong Kong Stock Exchange.

Cathay Pacific offers scheduled passenger and cargo services to 172 destinations in 39 countries and territories. At 31st December 2012, it operated 138 aircraft and had 92 new aircraft due for delivery up to 2020. It recently completed the building of its own cargo terminal in Hong Kong.

Dragonair is a regional airline based in Hong Kong. It operates 38 aircraft on scheduled services to 44 destinations in Mainland China and elsewhere in Asia.

Cathay Pacific owns 19.57% of Air China, the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Air China serves 96 domestic and 49 international, including regional, destinations. Cathay Pacific also has a cargo joint venture with Air China, which operates 11 Boeing 747-400F freighters and carries cargo in the bellies of the Air China passenger fleet.

AHK, a 60%-owned subsidiary of Cathay Pacific, operates express cargo services for DHL Express, the remaining 40% shareholder, to 12 Asian cities with a fleet of eight Airbus A300-600F freighters, three Boeing 747-400BCF freighters dry-leased from Cathay Pacific and one wet-leased Boeing 727 freighter. In January 2013, the wet-leased Boeing 727 freighter was replaced by an Airbus A300-600F freighter.

Cathay Pacific and its subsidiaries employ some 29,900 people worldwide (more than 22,800 of them in Hong Kong).



The HAECO Group

The HAECO group provides aviation maintenance and repair services. Its primary activities are aircraft maintenance and modification work in Hong Kong (by HAECO) and in Xiamen (by HAECO's subsidiary company, Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO")).

Engine overhaul work is performed by HAECO's jointly controlled company Hong Kong Aero Engine Services Limited ("HAESL") and by HAESL's jointly controlled company Singapore Aero Engine Services Pte. Limited ("SAESL"). The HAECO group has other subsidiaries and jointly controlled companies in Mainland China, which offer a range of aircraft engineering services.

HAECO is listed on the Hong Kong Stock Exchange.



STRATEGY

The strategic objective of Cathay Pacific and HAECO (as listed companies in their own right) is sustainable growth in shareholder value over the long-term. The strategies employed in order to achieve this objective are these:

- The development and strengthening of Hong Kong as a centre for aviation services, including passenger, cargo and aircraft engineering services.
- The development and strengthening of the airline (Cathay Pacific and Dragonair) and aircraft engineering (HAECO) brands.

IMPLEMENTING STRATEGIES

Turnover

Changes in turnover are determined by changes in capacity, load factors and yields. Capacity is determined by the size and composition of the fleets and by the intensity of their usage. Load factors are determined by economic conditions, competition, the routes on which the airlines fly, flight schedules, pricing and standards of service. Yields depend on pricing and, in the case of passenger services, the split between premium and economy class passengers. To the extent that these factors are within the control of the airlines, they do their best to ensure that they result in increased turnover. However, factors which are not within the control of the airlines, in particular economic conditions, cause fluctuations in turnover.

HAECO tries to increase turnover by expanding and improving the range of aircraft engineering services the HAECO group can offer to customers. Where possible, HAECO will increase prices to generate increased revenue. HAECO's ability to expand services in Hong Kong, which is its most important area of operations, can be constrained by labour shortages.

Operating Costs

Managing operating costs is important for the Cathay Pacific group and the HAECO group. Fuel is the Cathay Pacific group's biggest single cost and high fuel prices have a significant adverse effect on operating results. Managing the risk associated with changing fuel prices is a high priority. To this end, Cathay Pacific hedges some of its fuel costs. Investing in a younger, more fuel efficient fleet helps to control fuel costs (and to reduce the Cathay Pacific group's environmental impact). The Cathay Pacific group is vigilant in managing other operating costs but aims to ensure that this does not compromise the quality of its products and services or the long-term strategic investment in its business.

Employee costs make up over 45% of HAECO's operating expenses. Managing these costs whilst retaining a highly skilled workforce is a key challenge for HAECO.

- Developing the airlines' fleets (by investing in modern fuel efficient aircraft) with a view to their becoming one of the youngest, most fuel efficient fleets in the world.
- Maintaining and enhancing high standards of service to passenger, cargo and aircraft engineering customers.
- Strengthening the airlines' passenger and cargo networks and improving what they do on the ground and in the air.
- Continuing to build the strategic relationship with Air China.
- Increasing the range and depth of aircraft engineering services offered by HAECO.
- Endeavouring to minimise the impact of the airlines on the environment.

Investments

The Cathay Pacific group invests in new aircraft, new facilities and new services. Investing in new aircraft and facilities can expand capacity and control operating costs. Investing in new facilities is intended to attract and retain customers.

The HAECO group invests in order to expand its facilities and technical capabilities and to improve and widen the range of services it can offer to customers. By doing so, HAECO aims to set itself apart from competitors and to attract and retain new customers.

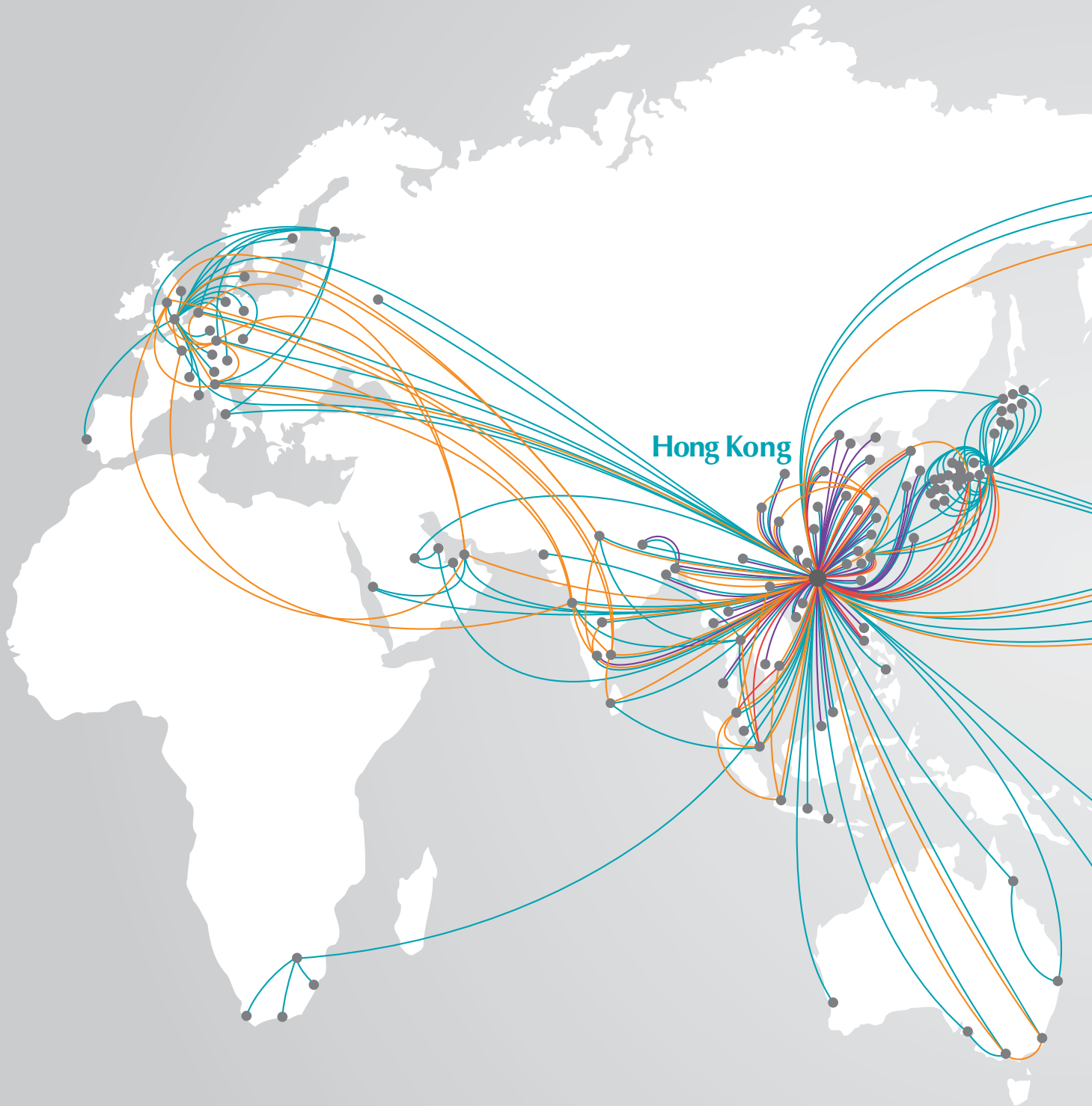
Sustainability

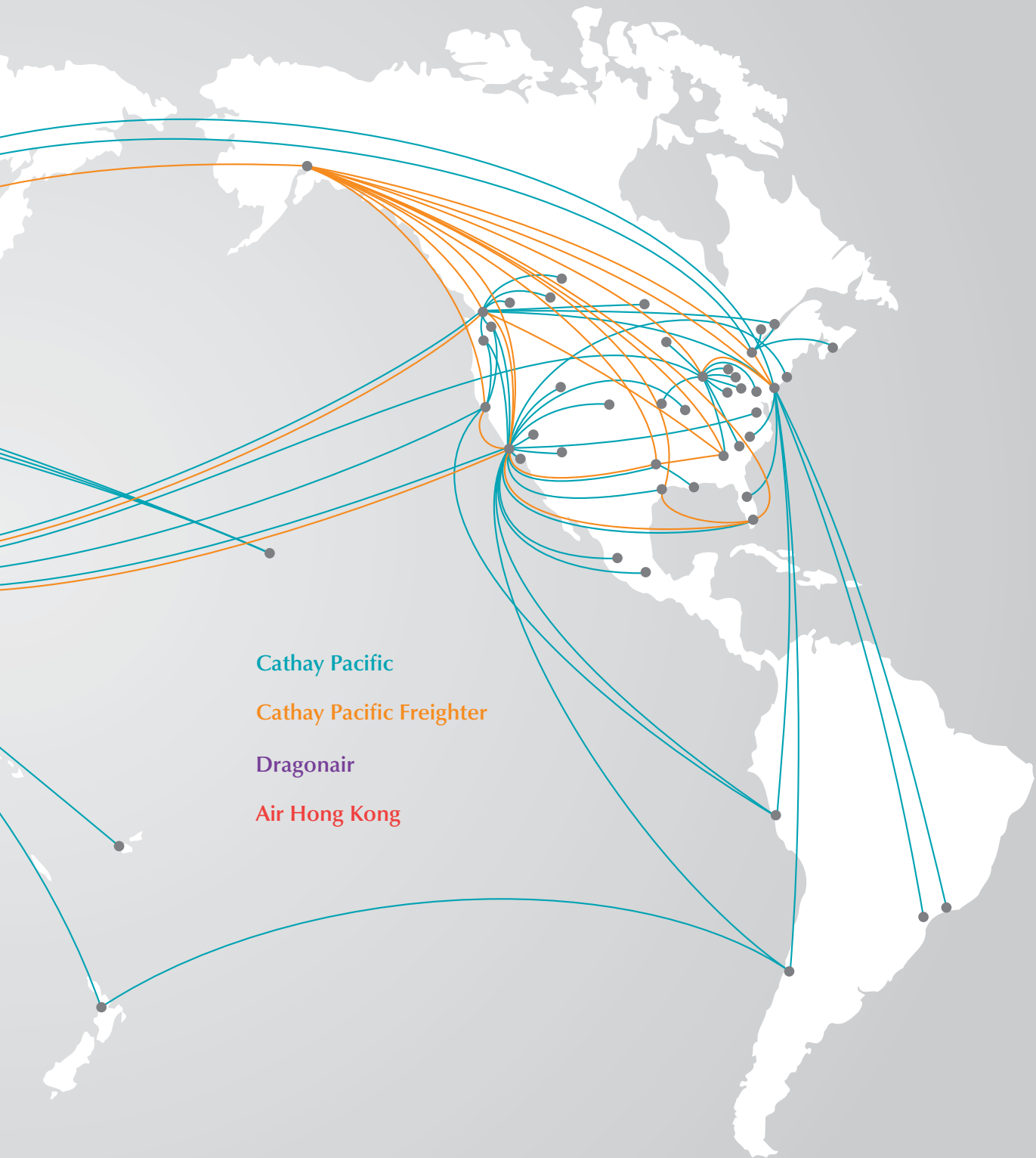
The Cathay Pacific group and the HAECO group endeavour to minimise their impact on the environment. The Cathay Pacific group invests in fuel efficient aircraft and tries to fly the shortest practicable distances between airports and to reduce the weight of its aircraft. The HAECO group tries to minimise the effect of effluents on the environment.

The HAECO group conducts business in a manner intended to protect the health and safety of its employees, its customers, those with whom it does business and the public. There is safety training and there are safety audits. Safety is of course a core commitment of the airlines.

Both groups recognise that the development of their staff is key to the sustainable development of their businesses and accordingly place great emphasis on supporting, rewarding, motivating and training staff.

NETWORK COVERAGE





2012 PERFORMANCE

CATHAY PACIFIC AND DRAGONAIR

		2012	2011	Change %
Available tonne kilometres ("ATK")	Million	26,250	26,383	-0.5%
Available seat kilometres ("ASK")	Million	129,595	126,340	+2.6%
Passenger revenue	HK\$M	70,133	67,778	+3.5%
Revenue passenger kilometres ("RPK")	Million	103,837	101,536	+2.3%
Revenue passengers carried	'000	28,961	27,581	+5.0%
Passenger load factor	%	80.1	80.4	-0.3%pt
Passenger yield	HK¢	67.3	66.5	+1.2%
Cargo revenue – Group	HK\$M	24,555	25,980	-5.5%
Cargo revenue – Cathay Pacific and Dragonair	HK\$M	21,601	23,335	-7.4%
Cargo and mail carried	Tonnes '000	1,563	1,649	-5.2%
Cargo and mail load factor	%	64.2	67.2	-3.0%pt
Cargo and mail yield	HK\$	2.42	2.42	–
Cost per ATK	HK\$	3.64	3.45	+5.5%
Cost per ATK without fuel	HK\$	2.13	2.01	+6.0%
Aircraft utilisation	Hours per day	12.0	12.3	-2.4%
On-time performance	%	77.4	82.0	-4.6%pt
Average age of fleet	Years	10.1	10.6	-4.7%
Number of destinations at year end	Destinations	179	167	+7.2%
Fuel consumption – Group	Barrels (million)	40.1	40.4	-0.7%
GHG emissions per ATK	Grammes of CO ₂ e	600	601	-0.2%
LTIR – Cathay Pacific	Number of injuries per 100 full-time equivalent employees	5.3	5.3	–
LTIR – Dragonair	Number of injuries per 100 full-time equivalent employees	4.2	5.0	-16%

HAECO GROUP

		2012	2011	Change %
Revenue	HK\$M	5,830	5,171	+13%
Operating costs	HK\$M	5,328	4,670	+14%
Airframe maintenance manhours sold – HAECO	Million	2.96	3.00	-1%
Airframe maintenance manhours sold – TAECO	Million	3.42	3.42	–
Line maintenance movements handled – HAECO	Average per day	320	306	+5%
Average hours of training per employee	Hours	61.0	60.9	+0.2%
LTIR	Number of injuries per 100 full-time equivalent employees	1.76	2.18	-19%

Fleet Profile

At 31st December 2012, the total number of aircraft in the Cathay Pacific and Dragonair fleets was 176, an increase of 12 since 31st December 2011.

In January 2012, Cathay Pacific ordered six Airbus A350-900s. In August, Cathay Pacific ordered ten Airbus A350-1000s and converted an existing order for 16 Airbus A350-900s into an order for 16 Airbus A350-1000s.

In 2012, Cathay Pacific took delivery of 15 new aircraft: five Boeing 777-300ERs, six Airbus A330-300s and four Boeing 747-8F freighters. Dragonair took delivery of four new Airbus A320-200s.

In response to the high cost of jet fuel, Cathay Pacific is accelerating the retirement of its older, less fuel-efficient Boeing 747-400 passenger aircraft. Three were retired from the fleet in the second half of 2012. As at 31 December 2012, there were 18 747-400s in the passenger fleet. By the end of 2013, this number will be reduced to 12. One more 747-400 will be retired in 2014.

FLEET PROFILE*

Aircraft type	Number as at 31st December 2012			Total	Firm orders			Total	Expiry of operating leases					Purchase rights	
	Leased				'13	'14	'15 and beyond		'13	'14	'15	'16	'17		'18 and beyond
	Owned	Finance													
Aircraft operated by Cathay Pacific															
A330-300	13	16	8	37	5	5	3	13			2	1	3	2	
A340-300	6	5		11											
A350-900							22 ^(a)	22							
A350-1000							26	26							20 ^(b)
747-400	17		1	18							1				
747-400F	3	3		6											
747-400BCF	2 ^(c)		4 ^(d)	6 ^(e)					2	1				1	
747-400ERF		6		6											
747-8F		8		8	2			2							
777-200	5			5											
777-200F						4	4	8 ^(e)							
777-300	5	7		12											
777-300ER	4	11	14	29	9	7	5	21					2	12	20 ^(f)
Total	55	56	27	138	16	16	60	92	2	1	3	1	5	15	40
Aircraft operated by Dragonair															
A320-200	5		10	15							2	2			6
A321-200	2		4	6							2	2			
A330-300	4	1	12	17					4	3	1	2	2		
Total	11	1	26	38					4	3	5	6	2	6	
Aircraft operated by Air Hong Kong															
A300-600F	2	6		8											
747-400BCF			3	3								1	2		
Total	2	6	3	11								1	2		
Grand total	68	63	56	187	16	16	60	92	6	4	8	8	9	21	40

* Includes parked aircraft. This profile does not reflect aircraft movements after 31st December 2012.

(a) Including two aircraft on 12-year operating leases.

(b) Purchase rights to be exercised no later than 2024, for A350 family aircraft.

(c) One aircraft was parked in May 2012 and the other aircraft was sold to Air China Cargo in March 2013.

(d) Two aircraft were parked in July and December 2012, respectively.

(e) Four B747-400BCF aircraft were disposed of in a trade-in deal with The Boeing Company entered into in March 2013. The four aircraft included three B747-400BCF aircraft taken out of service during 2012 and one aircraft taken out of service in February 2013. These aircraft will leave the fleet during 2013. Three new B747-8F aircraft will be acquired and delivered in 2013. The trade-in deal also included options to purchase five Boeing 777-200F aircraft.

(f) Purchase rights for aircraft to be delivered by 2017.

(g) In February 2013, the group agreed to lease two new Airbus A321-200 aircraft. These aircraft will be delivered in February and October 2014.

The introduction of new Boeing 747-8F freighters has resulted in a significant improvement in the operating economics of Cathay Pacific's ultra-long-haul cargo services. Two more aircraft of this type will be delivered in 2013. In addition, three more Boeing 747-8F freighters will be delivered in 2013 as a result of the agreements with The Boeing Company referred to below. By the end of 2013, 13 Boeing 747-8F freighters will be in operation.

One Boeing 747-400BCF converted freighter was retired from the fleet and scrapped in 2012. A further four Boeing 747-400BCF converted freighters were withdrawn from service in 2012 and early 2013 and were sold to The Boeing Company as part of the agreements referred to below. The third of four Boeing 747-400BCF converted freighters being sold to the cargo joint venture with Air China was delivered in July 2012 and the final one was sold in March 2013.



In August 2012, Cathay Pacific agreed to acquire ten fuel efficient Airbus A350-1000 aircraft and to convert 16 of its previously ordered Airbus A350-900 aircraft into Airbus A350-1000 aircraft.

FINANCIAL HIGHLIGHTS

	2012 HK\$M	2011 HK\$M
HAECO group		
Turnover	5,830	5,171
Operating profit	494	532
Attributable profit	659	615
Share of post-tax profits from associated companies		
Cathay Pacific group	412	2,405
Attributable profit	1,050	2,999

Accounting for the Cathay Pacific group

The group accounts for its associate interest in the Cathay Pacific group using the equity method of accounting. The Group recognises its share of net profit or loss as a single line-item in the consolidated income statement. For more information on the results and financial position of the Cathay Pacific group, please refer to the abridged financial statements on pages 234 to 238.

The remaining two of the four Airbus A340-300s parked by Cathay Pacific during the financial crisis of 2008 and 2009 had been returned to their lessors by February 2012. In February 2013, agreements to lease two new Airbus A321-200 aircraft were entered into. These aircraft will be delivered in February and October 2014.

In March 2013, the Cathay Pacific group entered into agreements with The Boeing Company under which the Cathay Pacific group agreed to buy three Boeing 747-8F freighter aircraft and the agreement to purchase eight Boeing 777-200F freighters entered into in August 2011 was cancelled. Pre-delivery payments already made in respect of the eight Boeing 777-200F freighters (which were scheduled to be delivered from 2014 to 2016), will be credited to the consideration for the purchase of the three Boeing 747-8F freighters (which are scheduled to be delivered in 2013). Under the agreements, Cathay Pacific also acquired options to purchase five Boeing 777-200F freighters and The Boeing Company agreed to purchase four Boeing 747-400BCF converted freighters, which were taken out of service in 2012 and early 2013. The transaction is part of a package of transactions between The Boeing Company (on the one hand) and the Cathay Pacific group, Air China Cargo and Air China (on the other hand).

At 31st December 2012, the Cathay Pacific group had a total of 92 aircraft on firm order, of which 16 will arrive in 2013. Including the trade-in deal, 19 aircraft will be delivered in 2013.

CATHAY PACIFIC GROUP

AIRLINE INDUSTRY BACKGROUND

In 2012, the airline industry was significantly affected by the high price of jet fuel, pressure on passenger yields and weak air cargo demand. Economic uncertainty, particularly in the Eurozone countries, and an increasingly competitive environment increased these difficulties. It was a challenging year.

2012 RESULTS SUMMARY

The Cathay Pacific group's attributable profit on a 100% basis was HK\$916 million in 2012, compared to a profit of HK\$5,501 million in 2011.

In May 2012, Cathay Pacific announced measures designed to protect the business in an environment of high fuel prices and weak revenues. The retirement of less fuel-efficient Boeing 747-400 passenger aircraft was accelerated. Three of these aircraft had left the fleet by November. Four Boeing 747-400BCF converted freighters were withdrawn from service. Schedules were changed and capacity was reduced on some long-haul routes. Inessential recruitment of ground staff was stopped. Voluntary unpaid leave was introduced for cabin crew. By the end of the year, costs, particularly of aircraft maintenance and fuel, had been reduced significantly from what they would otherwise have been as a result of reduced capacity and early retirement of aircraft. However, the reductions were not enough to offset in full the effects of high fuel prices and weak revenues.

Passenger revenue in 2012 was HK\$70,133 million, an increase of 3.5% compared with 2011. Capacity increased by 2.6%. 29 million passengers were carried, a rise of 5.0% compared to the previous year. The passenger load factor fell by 0.3 percentage points. Yield increased by 1.2% to HK67.3 cents, largely due to higher fuel surcharges consequent upon a 1.7% increase in average fuel prices.

The group's cargo revenue in 2012 was HK\$24,555 million, a decrease of 5.5% compared to 2011. Capacity on Cathay Pacific and Dragonair was down by 3.1%. The cargo load factor was down by 3.0 percentage points to 64.2%. Yield was the same as in 2011 at HK\$2.42. The tonnage carried in 2012 fell by 5.2% to 1.6 million tonnes by comparison with 2011.



The new premium economy class features a new seat and entertainment system and more space.



Dragonair flies to 44 destinations in Mainland China and elsewhere in Asia.

Fuel is the airline’s most significant cost. The high jet fuel price had a major impact on operating results in 2012. Disregarding the effect of fuel hedging, the group’s fuel costs increased by HK\$323 million (or 0.8%) in 2012. The increase reflected higher fuel prices despite a 0.7% decrease in fuel consumption. Cathay Pacific hedges some of its fuel costs in an effort to manage the risk associated with changing fuel prices. In 2012, a profit of HK\$544 million was recognised from fuel hedging activities.

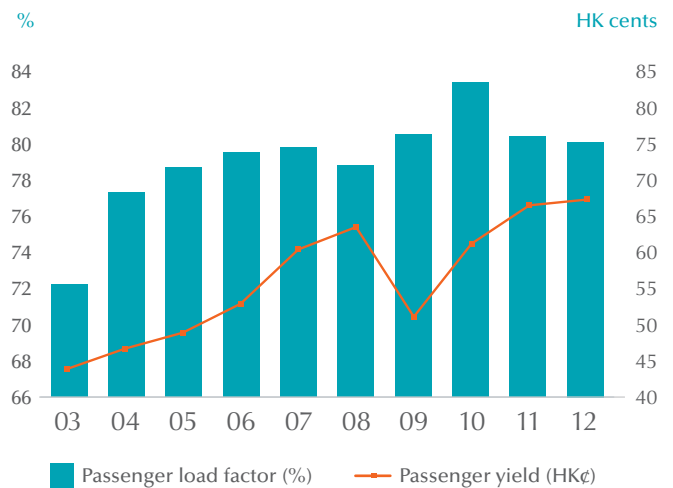
Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions and continues to defend itself vigorously. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances.

Passenger Services

Uncertain economic conditions and strong competition on key routes put pressure on passenger yields. Premium class revenues were weak, including during what is normally the peak period for corporate travel after the summer. The numbers of passengers travelling in the premium classes and premium class yields were affected by economic weakness in major economies and travel restrictions imposed by corporations. High fuel prices significantly affected the profitability of passenger services, particularly on long-haul routes operated by older, less fuel-efficient aircraft.

Cathay Pacific started flying to Hyderabad in India in December. In response to generally robust travel demand in Asia, Cathay Pacific increased frequencies on the Bangkok, Ho Chi Minh City, Kuala Lumpur, Penang, Chennai and Singapore routes. Four more flights per week were added to the Los Angeles route in March 2012. However, from September 2012, the frequency of flights on the Los Angeles,

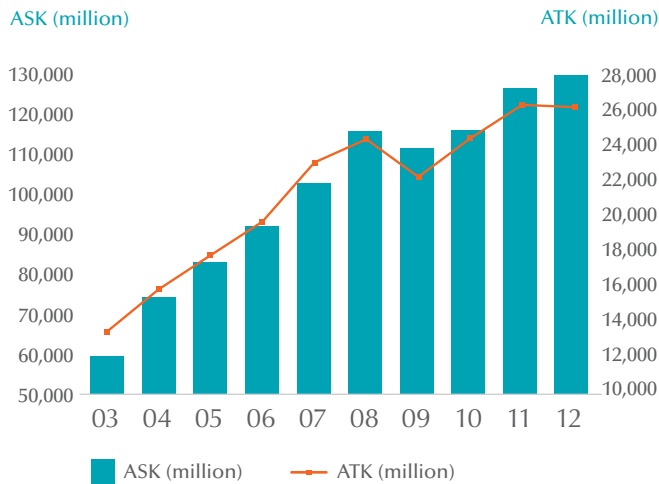
PASSENGER SERVICES LOAD FACTOR AND YIELD



New York and Toronto routes was reduced. This enabled fuel-efficient Boeing 777-300ER aircraft to operate on the London, Paris and San Francisco routes and reduced the number of services operated by older, less fuel-efficient Boeing 747-400 aircraft.

In 2012, Dragonair introduced or resumed flights to eight destinations – Chiang Mai, Clark, Guilin, Haikou, Jeju, Kolkata, Taichung and Xi’an. Dragonair added more flights on two secondary routes in Mainland China, Ningbo and Qingdao, increased its Okinawa service from two to four flights a week and used larger aircraft for some flights on the Guangzhou, Kunming and Xiamen routes. The number of flights per week to Cambodia was increased from seven to ten in October. In January 2013, Dragonair added three more destinations: Wenzhou, Yangon and Zhengzhou. It will introduce a service to Da Nang in March 2013.

CAPACITY – AVAILABLE SEAT KILOMETRES AND AVAILABLE TONNE KILOMETRES



Cargo Services

Demand for air cargo shipments from the two key markets, Hong Kong and Mainland China, was well below expectations, although there were short term upturns in March and in the last quarter reflecting launches of new consumer electronics products. Capacity was adjusted in line with demand. New routes were opened where demand was robust. Freighter services were introduced to Zhengzhou in March 2012, to Hyderabad in May and to Colombo in December. The service to Zaragoza was suspended in November. The high price of fuel made it difficult to operate profitably on European routes. However, the new Boeing 747-8F freighters helped to improve the operating economics of the business.

AHK Air Hong Kong Limited (“Air Hong Kong”)

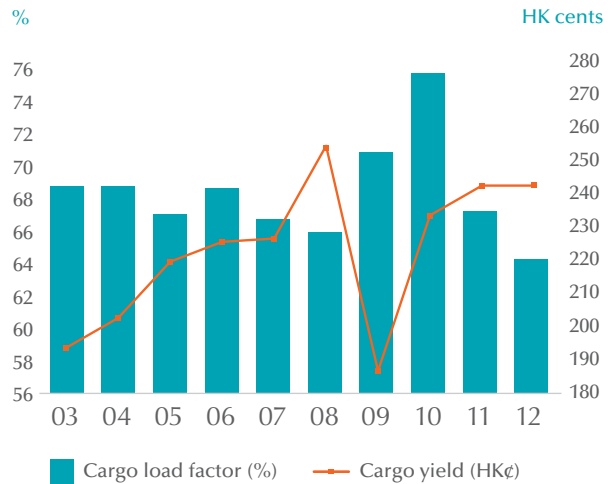
Air Hong Kong recorded a higher profit compared with 2011. Capacity increased by 11% in 2012 and yield improved by 7%, but the load factor fell by four percentage points.

Air China Limited (“Air China”)

The Cathay Pacific group’s share of Air China’s profit is based on accounts drawn up three months in arrear. Consequently the 2012 results include Air China’s results for the twelve months ended 30th September 2012, with account being taken of any significant events or transactions for the period from 1st October 2012 to 31st December 2012.

The Cathay Pacific group recorded a decrease in profit from Air China in 2012. This primarily reflected reduced demand, increased fuel costs and unfavourable exchange rate movements.

CARGO SERVICES LOAD FACTOR AND YIELD



Air China Cargo Co., Ltd. (“Air China Cargo”)

The Cathay Pacific group recorded an increased loss from Air China Cargo’s results in 2012 owing to weak demand in air cargo markets.

Shanghai International Airport Services Co., Limited

In March 2012, Cathay Pacific announced the formation of a new ground handling company, Shanghai International Airport Services Co., Limited. This joint venture between Cathay Pacific, Air China, the Shanghai Airport Authority and Shanghai International Airport Co., Ltd. provides airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport.

HAECO ITM Limited

In September 2012, HAECO and Cathay Pacific announced the formation of a joint venture to undertake inventory technical management. The joint venture started operations on 1st November 2012. It is conducted through HAECO ITM Limited, a company incorporated in Hong Kong owned as to 70% by HAECO and 30% by Cathay Pacific.

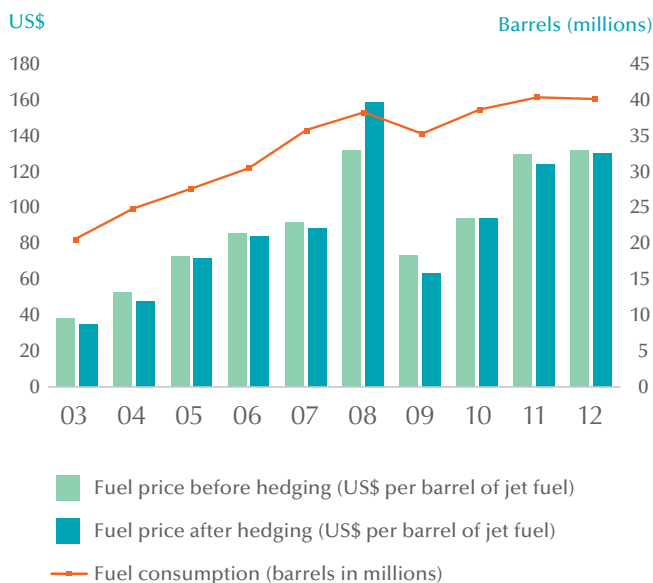
Cathay Pacific Services Limited

Cathay Pacific Services Limited, a wholly owned subsidiary of Cathay Pacific, established to design, build and operate the new Cathay Pacific cargo terminal at Hong Kong International Airport, commenced operations at its new HK\$5.9 billion facility in February 2013. To ensure a smooth transition from the current cargo operations, a staged transition of operations has been adopted for the opening of the terminal. The terminal will be fully operational in the latter half of 2013. When fully operational, the terminal will have an annual capacity of 2.6 million tonnes and will employ more than 1,800 staff. It will be one of the biggest and most sophisticated facilities of its kind in the world. It will significantly reduce the time it takes to process and ship cargo in Hong Kong.



Cathay Pacific's carbon efficiency relative to its overall capacity (measured in available tonne kilometres) has improved by 12% between 1998 and 2012. This is primarily due to improvements in fuel efficiency as Cathay Pacific acquired new aircraft.

FUEL PRICE AND CONSUMPTION



Cathay Pacific's new regional business class underlines its commitment to excellence in product innovation.

Other Operations

Cathay Pacific Catering Services group ("CPCS")

CPCS, a wholly-owned subsidiary of Cathay Pacific, is the principal flight kitchen in Hong Kong. CPCS reported an increase in profit in 2012 compared to 2011 mainly due to growth in the number of meals produced. Outside Hong Kong, profits increased in Taipei and Canada and fell in Ho Chi Minh City and Cebu.

Hong Kong Airport Services Limited ("HAS")

HAS, a wholly-owned subsidiary of Cathay Pacific, provides ramp and passenger handling and related services at Hong Kong International Airport.

The 2012 results of HAS were lower than expected. This reflected high operating costs and manpower shortages at Hong Kong International Airport.

OUTLOOK

The Cathay Pacific group operates in a volatile and challenging industry, one that will always be highly susceptible to external factors that remain largely beyond its control. The cost of fuel remains the biggest challenge, particularly for an airline where long-haul operations form a significant part of the business. The group's focus will remain on protecting the business and managing short-term volatility while remaining committed to its long-term strategy. Its financial position remains strong and it will continue to invest in the future. The group's core strengths remain the same as ever: a superb team, a strong international network, exceptional standards of customer service, a strong relationship with Air China and its position in Hong Kong. These will help to ensure the success of the Cathay Pacific group in the long term.

John R Slosar



HAECO was named “Leading Independent Maintenance, Repair and Overhaul Organisation” and “Best Airframe Maintenance, Repair and Overhaul Provider – Asia” in 2012.

HONG KONG AIRCRAFT ENGINEERING COMPANY (“HAECO”) GROUP

FINANCIAL HIGHLIGHTS

HAECO Group

	2012 HK\$M	2011 HK\$M	Change %
Turnover			
HAECO	3,421	3,307	+3%
TAECO	1,668	1,581	+6%
Others	741	283	+162%
Net operating profit	477	525	-9%
Profit attributable to the Company's shareholders			
HAECO	329	381	-14%
TAECO	70	98	-29%
Share of profit/(loss) of:			
HAESL and SAESL	531	415	+28%
Other subsidiary and jointly controlled companies	(54)	(73)	+26%
Total	876	821	+7%
Swire Pacific share	659	615	+7%

AVIATION MAINTENANCE AND REPAIR
INDUSTRY BACKGROUND

The aviation industry was affected by instability and uncertainty in the world's major economies in 2012. Despite this, airlines increased the size of their fleets. There were more passenger flights than in 2011 but fewer cargo flights. Demand for HAECO's aviation maintenance services in Hong Kong was firm. Demand for TAECO's aviation maintenance services in Mainland China was similar to that in 2011.

2012 RESULTS SUMMARY

The HAECO group's profit attributable to shareholders in 2012 on a 100% basis was HK\$876 million, an increase of 7% compared to the corresponding figure in 2011 of HK\$821 million. Demand for HAECO's airframe maintenance services in Hong Kong was strong throughout 2012, but HAECO was not able to meet this demand in the second half because of a shortage of skilled and semi-skilled labour. This was reflected in the results of the group for the second half, when profit attributable to shareholders was HK\$394 million, compared with HK\$482 million in the first half of 2012 and HK\$396 million in the second half of 2011. HAECO's line maintenance business in Hong Kong benefited from an increase in aircraft movements at Hong Kong International Airport.

Results from TAECO were adversely affected by exchange rate and deferred tax movements.

HAESL performed well, with an increase in engine output and the amount of work done per engine. The operating results of the group's joint ventures in Mainland China improved. Output was higher, but losses continued because of under-utilisation of facilities.

HAECO

Manhours sold by HAECO for airframe maintenance decreased from 3.00 million in 2011 to 2.96 million in 2012. Demand for airframe maintenance remained firm. Approximately 76% of the work was for airlines based outside Hong Kong. Line maintenance aircraft movements increased by 5% compared with 2011, with an average of 320 aircraft handled per day. This reflected growth in air traffic. HAECO's operating expenses increased by 5% to HK\$3,062 million reflecting higher wage costs.



The HAECO group's training programmes equip new recruits with qualifications to become aircraft maintenance professionals.

TAECO

TAECO recorded a 29% decrease in attributable profit in 2012 to HK\$70 million. Manhours sold by TAECO for airframe maintenance were 3.42 million in 2012, the same as in 2011. Five passenger to freighter conversions took place in 2012, in line with 2011. Results from TAECO were adversely affected by exchange rate differences on forward foreign exchange contracts and a write-off of deferred tax assets as a result of a change in the applicable tax rate from 25% to 15%.

HAESL and SAESL

HAESL recorded a 26% increase in profit to HK\$973 million in 2012. Engine output was 220, compared with 194 in 2011. The HAECO group's share of the after-tax profit of HAESL, including that derived from HAESL's interest in SAESL, increased by 28% in 2012 to HK\$531 million.

General

The group continued to invest in Hong Kong and Mainland China in order to expand its facilities and technical capabilities and so to improve and widen the range of services it can offer to customers.

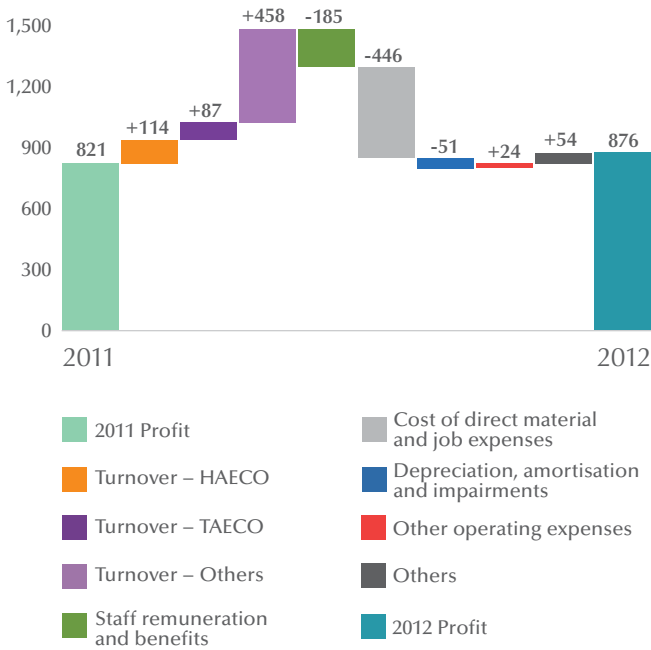
In September 2012, HAECO and Cathay Pacific announced the formation of a joint venture to undertake inventory technical management for Cathay Pacific and other airlines. The joint venture is conducted through HAECO ITM Limited, a company incorporated in Hong Kong owned as to 70% by HAECO and 30% by Cathay Pacific.

TAECO improved its operational efficiency and developed its capacity for cabin modification and cabin completion services.

Taikoo Engine Services (Xiamen) Company Limited completed 18 quick turn repairs and six performance restorations for GE engines. There will be further investment in equipment to support this capability.

HAECO GROUP –
MOVEMENT IN ATTRIBUTABLE PROFIT

HK\$M



There was a fire at Taikoo (Xiamen) Landing Gear Services Company Limited (“TALSCO”)’s premises in November 2012. No work has been done by TALSCO at the premises since then. The recovery of operations following the fire is likely to take more than nine months. Provisions of HK\$4 million have been made for possible uninsured losses.

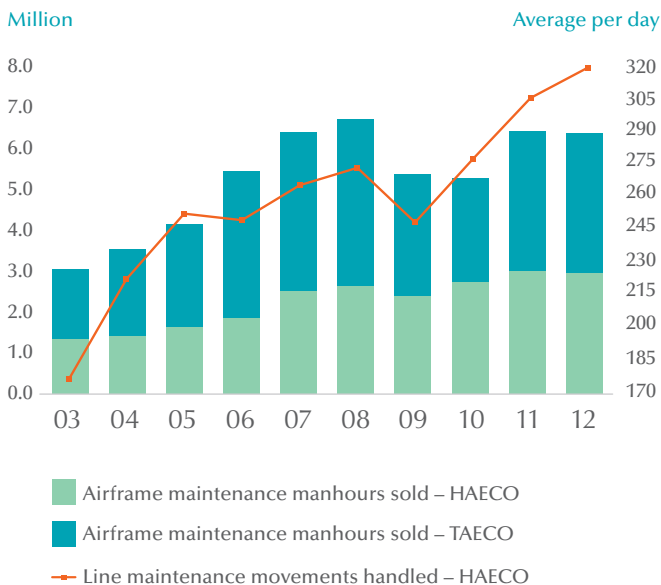
OUTLOOK

HAECO expects to do less airframe maintenance work in Hong Kong in 2013 than in 2012, with labour shortages restricting manhours expected to be sold in the first half to 1.2 million compared with 1.6 million in the first half of 2012. Although these labour shortages may ease in the second half of 2013, the first half shortfall is likely to have a material adverse effect on overall group turnover and profits for the full year. Line maintenance services in Hong Kong are expected to remain stable in 2013.

TAECO’s airframe maintenance business is expected to improve slightly in 2013, assisted by its first Airbus corporate jet cabin completion.

HAESL’s performance in 2013 is expected to be adversely affected by the early retirement of some of Cathay Pacific’s Boeing 747-400 aircraft and by a reduction in the required frequency of scheduled maintenance on Trent 700 engines, which power the Airbus A330 aircraft.

HAECO GROUP – KEY OPERATING HIGHLIGHTS



The joint ventures in Mainland China are expected to continue to be affected by under utilisation of facilities.

The HAECO group will continue to take measures to improve productivity in order to mitigate the effect of cost increases.

Augustus Tang