AVIATION DIVISION

Advancing World-Class Service

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.


CATHAY PACIFIC

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 ("Air Hong Kong"), an associate interest in Air China and an interest in the Air China Cargo joint venture entity. In addition, Cathay Pacific has interests in companies providing flight catering and ramp and cargo handling services. Cathay Pacific also owns and operates its own cargo terminal at Hong Kong International Airport. Cathay Pacific is listed on the Hong Kong Stock Exchange.

Cathay Pacific offers scheduled passenger and cargo services to 182 destinations in 41 countries and territories. At 31st December 2013, it operated 140 aircraft and had 93 new aircraft due for delivery up to 2024.

Dragonair is a regional airline based in Hong Kong. It operates 41 aircraft on scheduled services to 47 destinations in Mainland China and elsewhere in Asia.

Cathay Pacific owns 20.13% 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 212 domestic and 86 international, including regional, destinations. Cathay Pacific also has a cargo joint venture with Air China, which operates eight freighters and carries cargo in the bellies of the Air China passenger fleet.

Air Hong Kong, 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 owned Airbus A300-600F freighters, three Boeing 747-400BCF freighters dry-leased from Cathay Pacific and two wet-leased Airbus A300-600F freighters.

Cathay Pacific and its subsidiaries employ more than 31,600 people worldwide (around 24,200 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 joint venture company Hong Kong Aero Engine Services Limited ("HAESL"), by HAESL's joint venture company Singapore Aero Engine Services Pte. Limited ("SAESL") and by HAECO's subsidiary Taikoo Engine Services (Xiamen) Company Limited ("TEXL"). The HAECO group has other subsidiaries and joint venture companies in Mainland China, which offer a range of aircraft engineering services and has a 70% interest in an inventory technical management joint venture with Cathay Pacific in Hong Kong.

In February 2014, a wholly owned subsidiary of HAECO acquired a 100% equity interest in TIMCO Aviation Services, Inc. ("TIMCO"). TIMCO is a USA based provider of aircraft technical services including airframe, line and engine maintenance, cabin modification services and interior products manufacturing (including seats).

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.
- Developing the airlines' fleets (by investing in modern fuel efficient aircraft) with a view to their becoming two 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 and of HAECO on the environment.

IMPLEMENTING STRATEGIES

Turnover

Changes in turnover of the airlines 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 40% of HAECO's operating expenses. Managing these costs while retaining a highly skilled workforce is a key challenge for HAECO.

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.

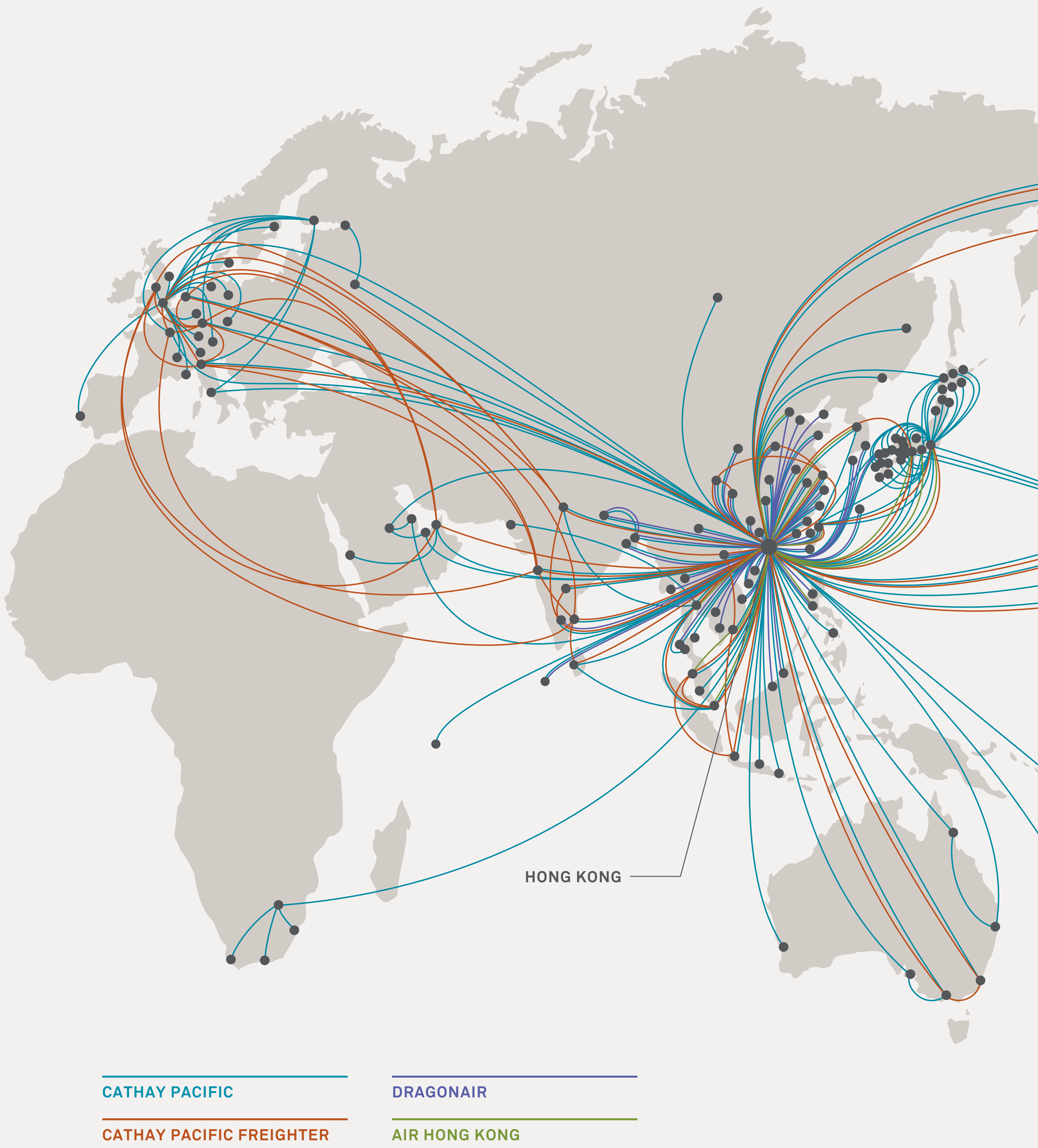
Sustainability

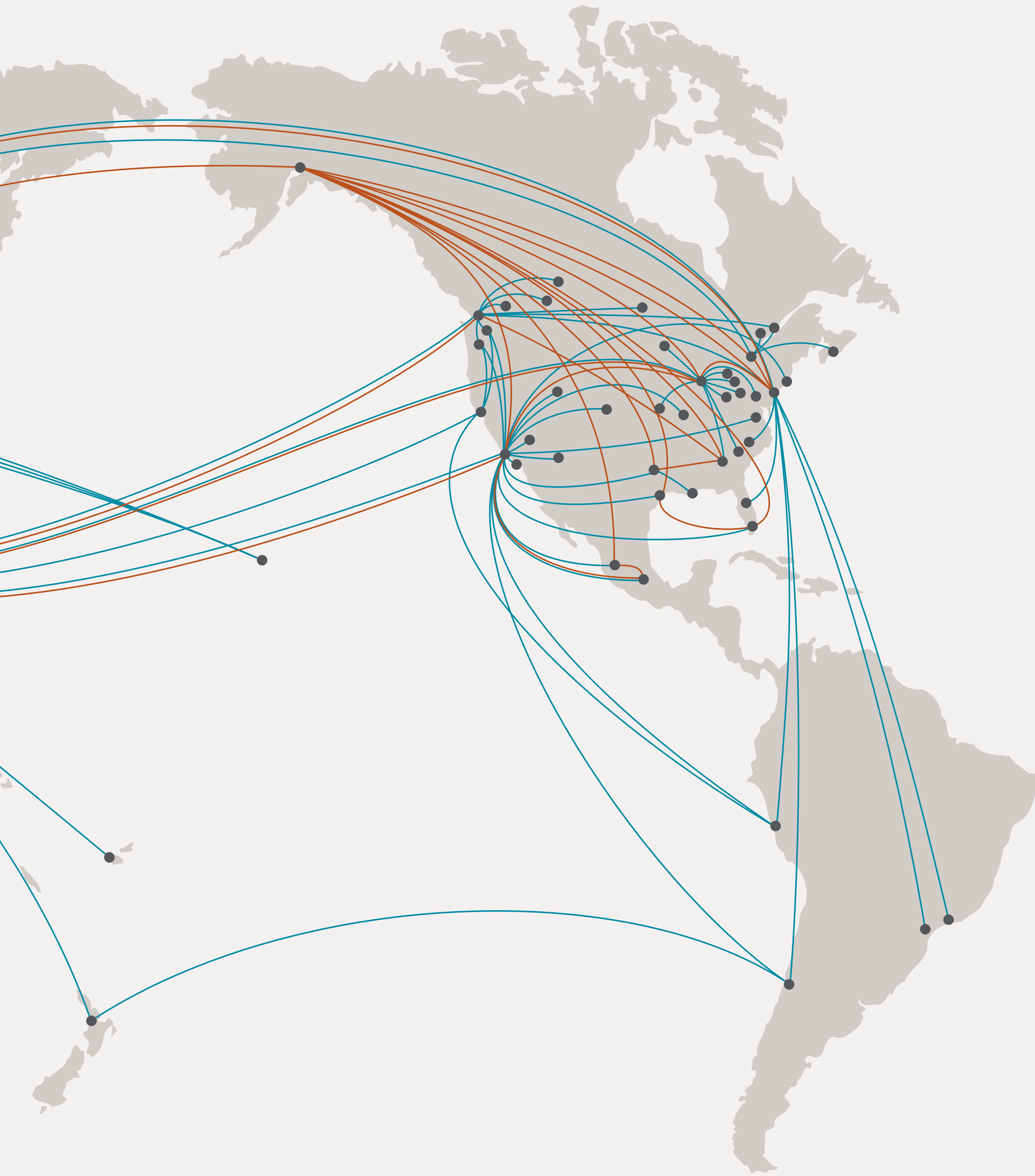
The Cathay Pacific group and the HAECO group endeavour to minimise their impact on the environment. The Cathay Pacific group invests in fuel efficient aircraft and tries to fly the shortest practicable distances between airports and to reduce the weight of its aircraft. The HAECO group tries to minimise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





2013 PERFORMANCE

Cathay Pacific and Dragonair

		2013	2012	Change
Available tonne kilometres ("ATK")	Million	**26,259**	26,250	–
Available seat kilometres ("ASK")	Million	**127,215**	129,595	-1.8%
Passenger revenue	HK$M	**71,826**	70,133	+2.4%
Revenue passenger kilometres ("RPK")	Million	**104,571**	103,837	+0.7%
Revenue passengers carried	'000	**29,920**	28,961	+3.3%
Passenger load factor	%	**82.2**	80.1	+2.1%pt
Passenger yield	HK¢	**68.5**	67.3	+1.8%
Cargo revenue – group	HK$M	**23,663**	24,555	-3.6%
Cargo revenue – Cathay Pacific and Dragonair	HK$M	**20,293**	21,601	-6.1%
Cargo and mail carried	Tonnes '000	**1,539**	1,563	-1.5%
Cargo and mail load factor	%	**61.8**	64.2	-2.4%pt
Cargo and mail yield	HK$	**2.32**	2.42	-4.1%
Cost per ATK (with fuel)	HK$	**3.58**	3.65	-1.9%
Cost per ATK (without fuel)	HK$	**2.16**	2.14	+0.9%
Fuel consumption – group	Barrels (million)	**39.5**	40.1	-1.5%
Aircraft utilisation	Hours per day	**11.8**	12.0	-1.7%
On-time performance	%	**75.5**	77.4	-1.9%pt
Average age of fleet	Years	**9.3**	10.1	-7.9%
Number of destinations at year end	Destinations	**190**	179	+6.1%

HAECO Group

		2013	2012	Change
Revenue	HK$M	**7,387**	5,830	+27%
Operating costs	HK$M	**7,208**	5,388	+34%
Airframe maintenance manhours sold – HAECO	Million	**2.56**	2.96	-14%
Airframe maintenance manhours sold – TAECO	Million	**3.68**	3.42	+8%
Line maintenance movements handled – HAECO	Average per day	**329**	320	+3%

Fleet Profile

At 31st December 2013, the total number of aircraft in the Cathay Pacific and Dragonair fleets was 181, an increase of five since 31st December 2012.

In March 2013, the Cathay Pacific group entered into agreements in relation to the fleet as part of a package of transactions among The Boeing Company, Cathay Pacific, Air China Cargo and Air China. Under these transactions, the Cathay Pacific group agreed to purchase three Boeing 747-8F freighters, which were delivered in December 2013, cancelled orders for eight Boeing 777-200F freighters, acquired options to purchase five Boeing 777-200F freighters and agreed to sell four Boeing 747-400BCF converted freighters. All of these converted freighters have already left the fleet. As part of the same package of transactions, Air China Cargo agreed to purchase eight Boeing 777-200F freighters and to sell seven Boeing 747-400BCF converted freighters.

In December 2013, Cathay Pacific agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F aircraft and to sell six existing Boeing 747-400F aircraft.

In 2013, Cathay Pacific took delivery of 19 new aircraft: five Airbus A330-300s (including one for Dragonair), nine Boeing 777-300ER aircraft and five Boeing 747-8F freighters.

In response to the high cost of jet fuel, Cathay Pacific has accelerated the retirement of older, less fuel efficient Boeing 747-400 passenger aircraft. Five of these aircraft were retired and deregistered in 2013 in addition to the three retired in 2012. In 2014, a total of six aircraft are to be retired, of which one was retired in January 2014. There will be seven of this aircraft type in the fleet by the end of 2014. Cathay Pacific is gradually retiring its Boeing 747-400 aircraft from long-haul service. By September 2014 they will only be operating on regional routes.

Six Airbus A330-300 aircraft were transferred from Cathay Pacific to Dragonair in 2013. Four of Dragonair's own Airbus A330-300 aircraft were returned to their lessors.

In addition to the four Boeing 747-400BCF converted freighters that were returned to Boeing in the abovementioned package of transactions, Cathay Pacific also parked two other freighters in 2013 – the last remaining converted freighter and one of the Boeing 747-400 production freighters. Three Boeing 747-400F freighters have been parked in 2014, two in January, one in February. One of them will be brought back into service in the second half of 2014.

At 31st December 2013, the Cathay Pacific group had a total of 95 aircraft on firm order, of which 16 will arrive in 2014.

Cathay Pacific has placed an order for 21 Boeing 777-9X aircraft from The Boeing Company as part of the airline's fleet modernisation programme.

Fleet Profile*

	Number as at 31st December 2013				Firm orders				Expiry of operating leases						
		Leased													
Aircraft type	Owned	Finance	Operating	Total	'14	'15	'16 and beyond	Total	'14	'15	'16	'17	'18	'19 and beyond	Options
Aircraft operated by Cathay Pacific															
A330-300	14	15	6	35	5	3		8		2	1	1		2	
A340-300	6	5		11											
A350-900							22(a)	22							
A350-1000							26	26							
747-400	12(b)		1	13						1					
747-400F	3(c)	3(d)		6(e)											
747-400BCF			1(f)	1									1		
747-400ERF		6		6											
747-8F	2	11		13			1(e)	1							
777-200	5			5											
777-200F															5(g)
777-300	7	5		12											
777-300ER	8	11	19	38	9	6(e)		15				2	2	15	
777-9X							21(e)	21							
Total	57	56	27	140	14	9	70	93		3	1	3	3	17	5
Aircraft operated by Dragonair															
A320-200	5		10	15									2	8	
A321-200	2		4	6	2(h)			2						4	
A330-300	5	1	14(i)	20					7	1	2	4			
Total	12	1	28	41	2			2	7	1	2	4	2	12	
Aircraft operated by Air Hong Kong															
A300-600F	2	6		8											
747-400BCF			3	3							1	2			
Total	2	6	3	11(j)							1	2			
Grand total	**71**	**63**	**58**	**192**	**16**	**9**	**70**	**95**	**7**	**4**	**4**	**9**	**5**	**29**	**5**

* Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2013.

(a) Including two aircraft on 12-year operating leases.
(b) One aircraft was retired in January 2014.
(c) One aircraft was parked in May 2013.
(d) The finance leases of these three aircraft were terminated early, in January 2014.
(e) In December 2013, Cathay Pacific agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters.
(f) Aircraft was parked in August 2013.
(g) Purchase options to purchase five Boeing 777-200F freighters.
(h) Aircraft on eight-year operating leases, one of which was delivered in January 2014.
(i) Six aircraft (four owned by Cathay Pacific and two leased by Cathay Pacific) were leased to Dragonair during 2013. Dragonair purchased one of them from Cathay Pacific upon the expiry of its lease in February 2014.
(j) Air Hong Kong also has two Airbus A300-600F freighters on wet leases, with lease terms ending in 2015. Accordingly, it operates a total of 13 aircraft.

Financial Highlights

	2013 HK$M	2012 HK$M
HAECO group		
Turnover	**7,387**	5,830
Operating profit	**266**	434
Attributable profit	**469**	618
Share of post-tax profits from associated companies		
Cathay Pacific group	**1,179**	387
Attributable profit	**1,627**	984

Cathay Pacific group – Sustainable Development Highlights

	2013	2012
GHG emissions (Million tonnes of CO_2e)	**15.5**	15.7
GHG emissions per ATK (Grammes of CO_2e)	**589**	600
LTIR	**4.84**	5.07

Notes:
1. Swire Pacific has implemented the revised HKAS19: Employee Benefits (effective from 1st January 2013), which requires retrospective application. As a result, the 2012 full-year comparative results for the division have been restated from those in the Group's 2012 full-year statutory accounts.
2. Please refer to pages 239 to 242 for further sustainable development statistics. Greenhouse gas emissions disclosed above are from jet fuel combustion only.

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 statement of profit or loss. For more information on the results and financial position of the Cathay Pacific group, please refer to the abridged financial statements on pages 220 to 223.

CATHAY PACIFIC GROUP

AIRLINE INDUSTRY BACKGROUND

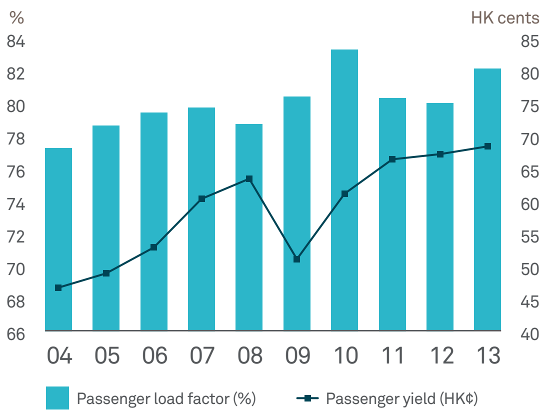
The operating environment remained challenging throughout the year. The airline industry continued to be affected by the high price of jet fuel, pressure on passenger yields and weak air cargo demand. Competition intensified during the year for both passenger and cargo services.

2013 RESULTS SUMMARY

The Cathay Pacific group's attributable profit on a 100% basis was HK$2,620 million in 2013, compared to a profit of HK$862 million in 2012. The improvement in the group's performance in 2013 was largely due to the strength of the passenger business and the positive impact of measures introduced in 2012 to protect the business from the high price of jet fuel.

Passenger revenue in 2013 was HK$71,826 million, an increase of 2.4% compared with 2012. Capacity decreased by 1.8%. 29.9 million passengers were carried, a rise of 3.3% compared to the previous year. The passenger load factor increased by 2.1

Passenger Services Load Factor and Yield



percentage points. Yield improved by 1.8% to HK68.5 cents, largely due to strong passenger demand on long-haul routes in all classes of travel.

The Cathay Pacific group's cargo revenue in 2013 was HK$23,663 million, a decrease of 3.6% compared to 2012. Cargo capacity for Cathay Pacific and Dragonair increased by 1.7%. The cargo load factor was down by 2.4 percentage points to 61.8%. Yield fell to HK$2.32 from HK$2.42 in 2012. The tonnage carried in 2013 fell by 1.5% to 1.5 million tonnes in comparison with 2012.

Fuel is the airline's most significant cost, accounting for 39.0% of operating costs. The persistently high jet fuel price continued to have a major impact on operating results in 2013. Disregarding the effect of fuel hedging, the group's fuel costs decreased by HK$1,897 million or 4.6% in 2013. The decrease reflected a 3.0% decrease in average into-plane fuel prices and a 1.5% 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 2013, a profit of HK$985 million was recognised from fuel hedging activities.

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

Passenger Services

Passenger demand was strong on long-haul routes in all classes of travel. However, demand on regional routes did not match the increase in capacity on these routes, which put yield under pressure. The introduction of premium economy class has been well received and has improved economy class yield.

Cathay Pacific continued to develop its route network in 2013. Some of the long-haul passenger frequencies cancelled as part of 2012's cost-reduction measures were restored and a number of new destinations were introduced. Cathay Pacific reinstated frequencies to Los Angeles, Toronto and New York during the year. A fifth daily frequency was added to London in June and Cathay Pacific added a new four-times-weekly service to Male in the Maldives in October. Cathay Pacific began flying to Newark in the United States in March 2014, will begin flying to Doha in late March 2014 and will add more flights to Los Angeles and Chicago in the second half of 2014.

Dragonair introduced services to Da Nang, Siem Reap, Wenzhou, Yangon and Zhengzhou. It also introduced a 10-times-weekly service to Penang in March 2014, at the same time as Cathay Pacific stopped flying on that route. It will also begin a two-times-weekly service to Bali in Indonesia in April 2014.

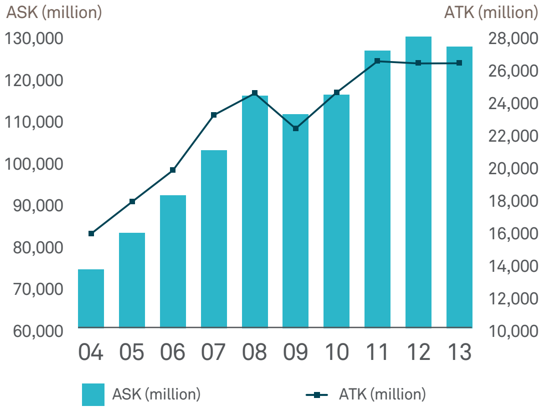
Dragonair was voted the "World's Best Regional Airline" in the 2013 Skytrax awards, and was named the "Best Regional Airline" for the fourth year running at the 24th Annual TTG Travel Awards.

Cathay Pacific's HK$5.9 billion cargo terminal became fully operational in October 2013.

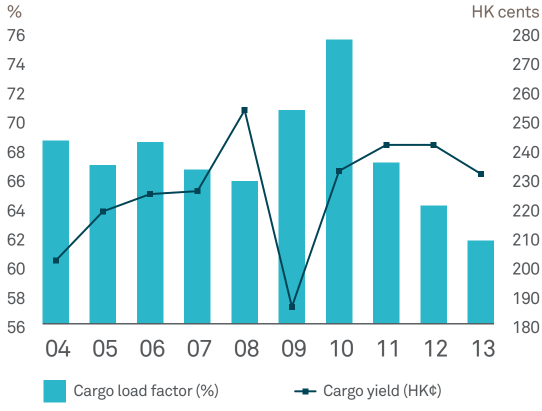
Cargo Services

The Cathay Pacific group's cargo business has been adversely affected by weak demand since April 2011. There was some recovery in business during the last three months of 2013, which is normally the peak period of the year for cargo shipments. Cathay Pacific adjusted capacity in-line with demand in 2013, reducing freighter schedules and making ad hoc flight cancellations. Cathay Pacific carried more cargo in the bellies of passenger aircraft in order to reduce costs. The new cargo terminal at Hong Kong International Airport became fully operational in October 2013. The terminal will reduce costs and improve efficiency in the long term.

Capacity – Available Seat Kilometres and Available Tonne Kilometres



Cargo Services Load Factor and Yield



Cathay Pacific suspended freighter flights to Brussels and Stockholm in February 2013. It introduced new freighter services to Guadalajara in October 2013 and extended this service to Mexico City in March 2014. It will add a two-times-weekly freighter service to Columbus in the United States in late March 2014.

Sustainable Development

Greenhouse gas emissions decreased by 1% or 0.2 million tonnes of CO_2e to 15.5 million tonnes of CO_2e in 2013. There was also a reduction in emissions per unit of capacity (measured in available tonne kilometres). This improvement is a result of the retirement of older and less fuel-efficient aircraft and their replacement by newer and more fuel-efficient aircraft.

The reduction in the lost time injury rate of 4% principally reflected a reduction in the number of injuries to cabin crew.

Other Operations

AIR HONG KONG

Air Hong Kong recorded a higher profit compared with 2012. Capacity increased by 3% in 2013. The load factor decreased by 1 percentage point.

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 2013 results include Air China's results for the twelve months ended 30th September 2013, with account being taken of any significant events or transactions for the period from 1st October 2013 to 31st December 2013.

The Cathay Pacific group recorded a decrease in profit from Air China in 2013. This primarily reflected increased fuel costs.

AIR CHINA CARGO CO., LTD. ("AIR CHINA CARGO")

The Cathay Pacific group recorded a decreased loss from Air China Cargo in 2013, mainly due to the retirement of older aircraft, which resulted in a decrease in maintenance costs.

SHANGHAI INTERNATIONAL AIRPORT SERVICES CO., LIMITED ("SIAS")

SIAS is a joint venture between Cathay Pacific, Air China, Shanghai Airport Authority and Shanghai International Airport Co., Ltd. It provides airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport. SIAS made a loss in 2013, but it was less than expected due to cost savings.

CATHAY PACIFIC SERVICES LIMITED ("CPSL")

Cathay Pacific Services Limited, a wholly-owned subsidiary of Cathay Pacific, was established to design, build and operate the new Cathay Pacific cargo terminal at Hong Kong International Airport.

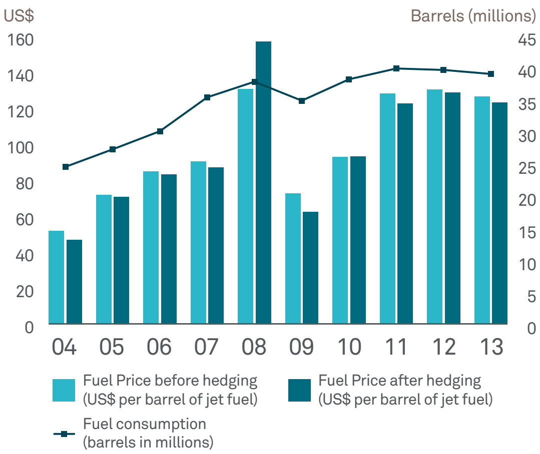
Following a phased start to operations, the terminal became fully operational in October. CPSL reported a loss in 2013. This reflected the fact that it was not fully operational until October 2013.

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 2013 compared to 2012, mainly due to an increase in business volume and effective management of costs.

HONG KONG AIRPORT SERVICES ("HAS")
HAS, a wholly-owned subsidiary of Cathay Pacific, provides ramp and passenger handling and related services at Hong Kong International Airport.

The 2013 results deteriorated as a result of higher staff costs due to manpower shortages at Hong Kong International Airport.

Fuel Price and Consumption



OUTLOOK

The operating environment remained challenging throughout 2013 for the Cathay Pacific group and the aviation industry as a whole. It was therefore encouraging to see an improvement in the Cathay Pacific group's overall performance, and the strength of the passenger business reflects continuing investment in network development and providing superior service and world-beating products. The cargo business continues to be problematic. There is still no sign of any sustained improvement in the market. Some changes in the business appear now to be structural rather than cyclical. Cathay Pacific remains confident in Hong Kong's future as an air cargo centre and believes that its reshaped freighter fleet and new cargo terminal will allow it to compete successfully in the long term.

Cathay Pacific's carbon efficiency relative to its overall capacity (measured in available tonne kilometres) has improved by 13% since 1998. Cathay Pacific aims to achieve a 2% per annum improvement in fuel efficiency up to 2020.

The business outlook for 2014 looks to be improved when compared to 2013. The passenger business continues to perform well and will benefit from further expansion of frequencies on long-haul routes. Fuel prices remain high but Cathay Pacific will benefit from its hedging positions should they remain so. Cathay Pacific also expects an improvement in the performance of its non-airline subsidiaries and its associates, with the new cargo terminal being fully operational and Air China Cargo benefiting from its upgraded freighter fleet.

Cathay Pacific will continue to invest to make its business stronger while keeping its financial position strong. Cathay Pacific remains committed to strengthening the world class aviation hub in its home, Hong Kong.

John R Slosar

HONG KONG AIRCRAFT ENGINEERING ("HAECO") GROUP

HAECO provides world-class maintenance service for a wide range of aircraft types, and is recognised for its technical expertise and operational excellence.

AVIATION MAINTENANCE AND REPAIR INDUSTRY BACKGROUND

The global aviation maintenance market remained very competitive. New aircraft types require less maintenance than the models they are replacing. Original equipment manufacturers are increasingly entering the aftersales market.

2013 RESULTS SUMMARY

The HAECO group's profit attributable to shareholders in 2013 on a 100% basis was HK$625 million, a decrease of 24% compared to the corresponding figure in 2012 of HK$822 million. Demand for line maintenance services in Hong Kong remained stable. Airframe maintenance and component overhaul services in Hong Kong were adversely affected by shortages of skilled and semi-skilled labour, which resulted in a significant reduction in capacity.

The results of TAECO improved in 2013, with higher demand for its airframe maintenance services.

The performance of HAESL was affected by the early retirement of Boeing 747-400 aircraft. Engine output and the profit contribution from HAESL fell in 2013.

TEXL recorded its first full-year profit in 2013, as a result of higher engine output. The overall results of the group's other subsidiaries and joint ventures in Mainland China (except TALSCO) improved compared with 2012.

The group continued to invest in facility expansion and technical capabilities in order to improve and widen the range of aircraft engineering services provided to customers. Total capital expenditure for 2013 was HK$560 million, with a further HK$4,276 million (including expenditure on the acquisition of TIMCO) committed at the end of the year.

Financial Highlights

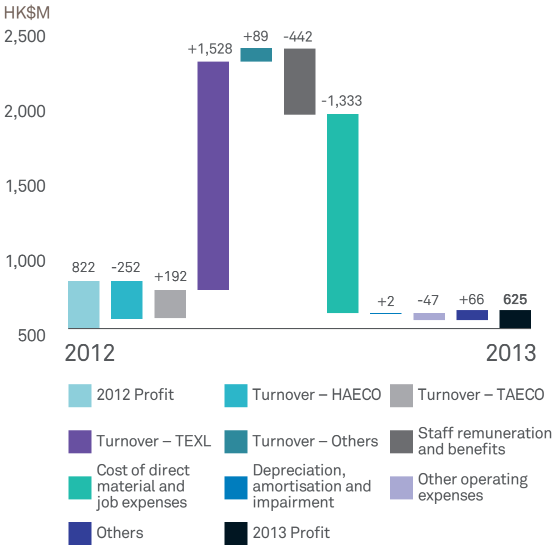
	2013 HK$M	2012 HK$M	Change %
Turnover			
HAECO	**3,169**	3,421	-7%
TAECO	**1,860**	1,668	+12%
TEXL	**2,095**	567	+269%
Others	**263**	174	+51%
Net operating profit	**228**	417	-45%
Profit attributable to the Company's shareholders			
HAECO	**60**	279	-78%
TAECO	**90**	70	+29%
Share of profit/(loss) of:			
HAESL and SAESL	**465**	527	-12%
Other subsidiary and joint venture companies	**10**	(54)	+119%
Total	**625**	822	-24%
Swire Pacific share	**469**	618	-24%

Sustainable Development Highlights

	2013	2012	Change %
Average training hours (Per employee per year)	**65**	61	+7%
LTIR	**1.68**	1.76	-5%
Energy consumption (Thousands of Gigajoules)	**660**	575	+15%

Notes
1. Swire Pacific has implemented the revised HKAS19: Employee Benefits (effective from 1st January 2013), which requires retrospective application. As a result, the 2012 full-year comparative results for the division have been restated from those in the Group's 2012 full-year statutory accounts.
2. Please refer to pages 239 to 242 for further sustainable development statistics.

HAECO Group – Movement in Attributable Profit



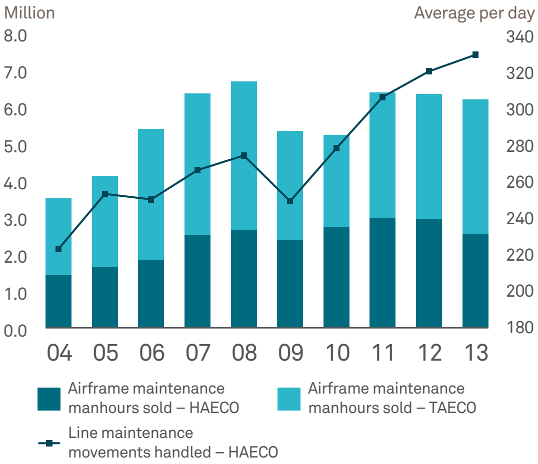
HAECO

HAECO recorded a 78% decrease in attributable profit in 2013 to HK$60 million.

Manhours sold by HAECO for airframe maintenance decreased from 2.96 million in 2012 to 2.56 million in 2013. Airframe maintenance services were materially affected by shortages of skilled and semi-skilled labour, which restricted available capacity. Approximately 77% of the work was for airlines based outside Hong Kong.

Line maintenance aircraft movements increased by 3% compared with 2012, with an average of 329 aircraft handled per day. Demand increased in line with aircraft movements at Hong Kong International Airport.

HAECO Group – Key Operating Highlights



HAECO's operating expenses decreased by 1% to HK$3,115 million reflecting lower direct material costs partly offset by higher staff costs.

TAECO

TAECO recorded a 29% increase in attributable profit in 2013 to HK$90 million.

Manhours sold by TAECO for airframe maintenance were 3.68 million in 2013, an increase of 8% from 2012. Two passenger to freighter conversions were completed in 2013.

TAECO's operating expenses increased by 15% to HK$1,775 million, mainly due to increased staff and direct material costs.

TAECO developed its capacity for cabin modification and cabin completion services.

HAESL and SAESL

HAESL recorded a 16% decrease in profit to HK$812 million in 2013, reflecting a reduction in the number of engines overhauled. Engine output was 193, compared with 220 in 2012. SAESL recorded a 6% increase in profit in 2013 to HK$1,108 million, as a result of more overhaul work being done per engine.

HXITM

HXITM provides inventory technical management services for a total of 231 aircraft. A profit was recorded in 2013.

TEXL

TEXL completed 40 quick turn repairs and 19 performance restorations for General Electric engines. The increase in engine output resulted in TEXL recording a profit in 2013.

Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO")

TALSCO's operations continued to be affected by the fire which occurred in November 2012. TALSCO resumed work in December 2013 on its own landing gear. No landing gear overhaul work was done for customers in 2013.

Sustainable Development

The group's average training hours per employee rose by 7% to 65 hours. The group continued to provide extensive training to its staff at the training centres in Hong Kong and Xiamen.

The group's lost time injury rate decreased by 5% from 2012 to 2013. This reflects a reduction in injury numbers following the implementation of initiatives to promote health and safety.

The group's energy consumption increased by 15% to 660,000 gigajoules. The increase is mainly a result of more engine repair work at TEXL.

ACQUISITION OF TIMCO

In October 2013, HAECO conditionally agreed to acquire a 100% equity interest in TIMCO (a company based in the United States). In February 2014, the acquisition was completed for a total consideration of US$371.8 million (HK$2,887 million). The principal activity of TIMCO is the provision of a broad spectrum of aircraft technical services including airframe, line and engine maintenance, cabin modification services and interior products manufacturing (including seats). The business and operations of TIMCO fit well strategically with the HAECO group's existing business. There is limited overlap between the businesses of the HAECO group and TIMCO. Together, they will be able to offer enhanced and expanded aircraft maintenance and cabin modification services to a wider range of customers based in Asia and North America.

For accounting purposes, HAECO obtained control of TIMCO on the completion date of the acquisition and will consolidate TIMCO's results from that date. There is no impact on Swire Pacific's or HAECO's results for the year ended 31st December 2013, except that certain acquisition costs were charged to the statements of profit or loss of Swire Pacific and HAECO in 2013.

OUTLOOK

HAECO's operations in Hong Kong continue to suffer from shortages of skilled and semi-skilled labour and, as a result, airframe maintenance capacity in 2014 is expected to remain low. HAECO continues to improve remuneration, career development opportunities and training. The rate of attrition of staff has slowed, but it takes a long time to train new staff to reach required standards. Demand for line maintenance services in Hong Kong is expected to remain stable.

TAECO's business will be adversely affected by increasing staff costs, although demand for its airframe maintenance services is expected to remain stable.

HAESL's 2014 performance will continue to be adversely affected by early retirement of Boeing 747-400 aircraft. It will also be adversely affected by a reduction in the required frequency of scheduled maintenance on Trent 700 engines, which power Airbus A330 aircraft.

TEXL is expected to perform well in 2014.

HAECO staff are trained to provide a wide range of aircraft maintenance services.

A new component overhaul workshop has started to operate in Xiamen. This should be able to perform some of the component and avionics overhaul work which cannot be done in Hong Kong because of labour shortages.

Considerable management efforts are being devoted to the integration of TIMCO with the HAECO group.

The municipal government in Xiamen has announced its intention to develop a new airport at Xiang'an. The timing of the development of the new airport and its implications for TAECO's, and other HAECO group, operations at the existing airport are not yet clear. Management intends to maintain regular communication with the local authority and to develop plans for continued operations in Xiamen.

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