

AVIATION DIVISION

# ADVANCING WORLD-CLASS SERVICE

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





Asia's world city

CATHAY PACIFIC

PC

## OVERVIEW OF THE BUSINESS

The Aviation Division comprises significant investments in the Cathay Pacific group and the HAECO group.



### The Cathay Pacific Group

The Cathay Pacific group includes Cathay Pacific, its wholly-owned subsidiary Dragonair, its 60%-owned subsidiary AHK Air Hong Kong Limited ("Air Hong Kong"), an associate interest in Air China and an interest in Air China Cargo Co., Ltd. ("Air China Cargo"). Cathay Pacific has interests in companies providing flight catering and ramp and cargo handling services, and owns and operates a cargo terminal at Hong Kong International Airport. It is listed on The Stock Exchange of Hong Kong Limited.

Cathay Pacific offers scheduled passenger and cargo services to

203 destinations in 50 countries and territories. At 31st December 2014, it operated 147 aircraft and had 79 new aircraft due for delivery up to 2024.

Dragonair is a regional airline registered and based in Hong Kong. It operates 41 aircraft on scheduled services to 52 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. At 31st December 2014, Air China operated 225 domestic and 97 international, including regional,

routes. Cathay Pacific has a cargo joint venture with Air China, which operated 12 freighters at 31st December 2014 and carries cargo in the bellies of Air China's passenger aircraft.

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. At 31st December 2014, Air Hong Kong operated ten Airbus A300-600F freighters and three Boeing 747-400BCF converted freighters.

Cathay Pacific and its subsidiaries employ more than 32,900 people worldwide (around 25,400 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 Hong Kong), in Xiamen (by HAECO Xiamen) and in the United States (by HAECO Americas).

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"), by HAECO's subsidiary Taikoo Engine Services (Xiamen) Company Limited ("TEXL") and by HAECO Americas. 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 HAECO ITM Limited ("HAECO ITM"), an inventory technical management joint venture with Cathay Pacific in Hong Kong.

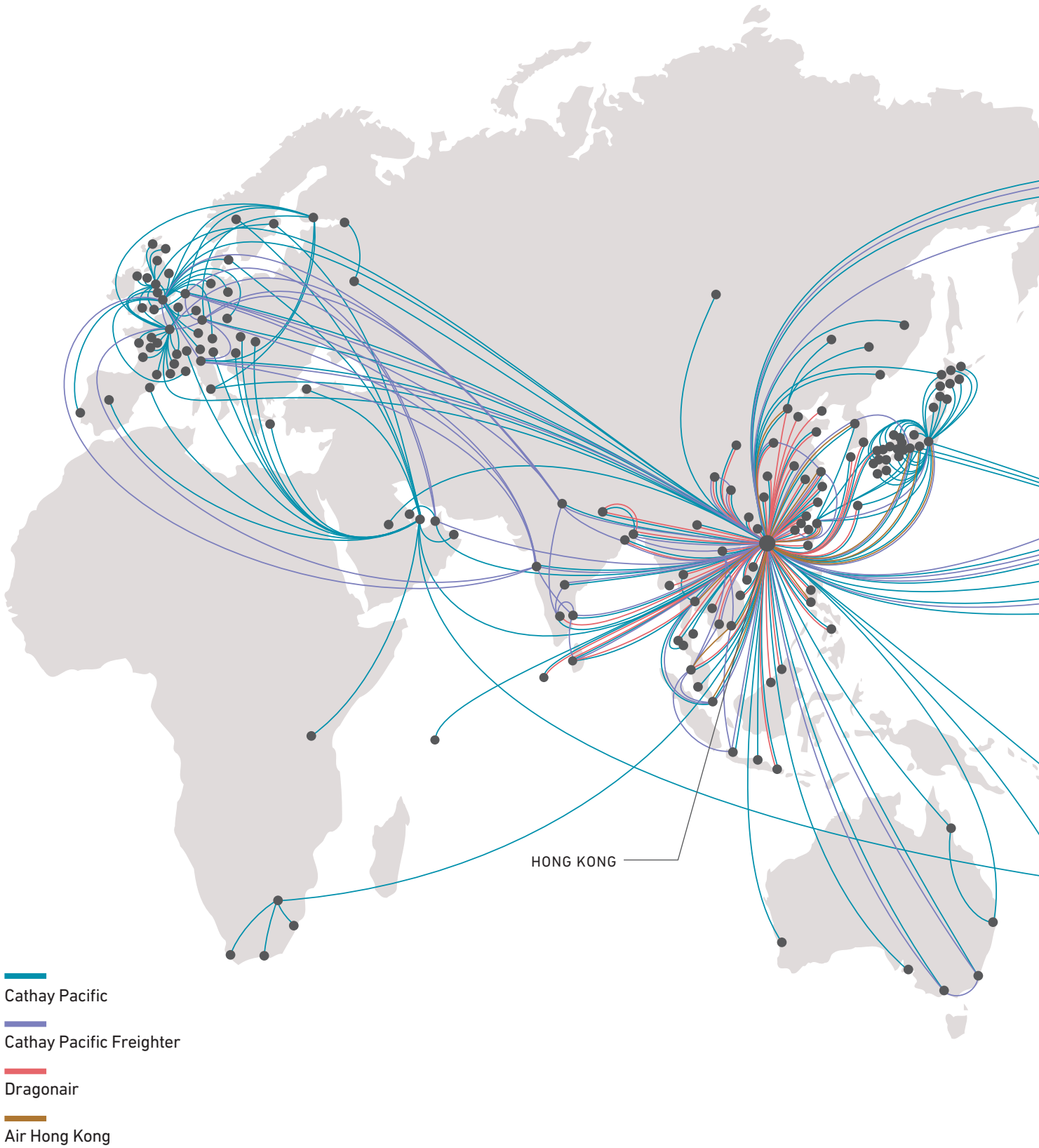
HAECO is listed on The Stock Exchange of Hong Kong Limited.

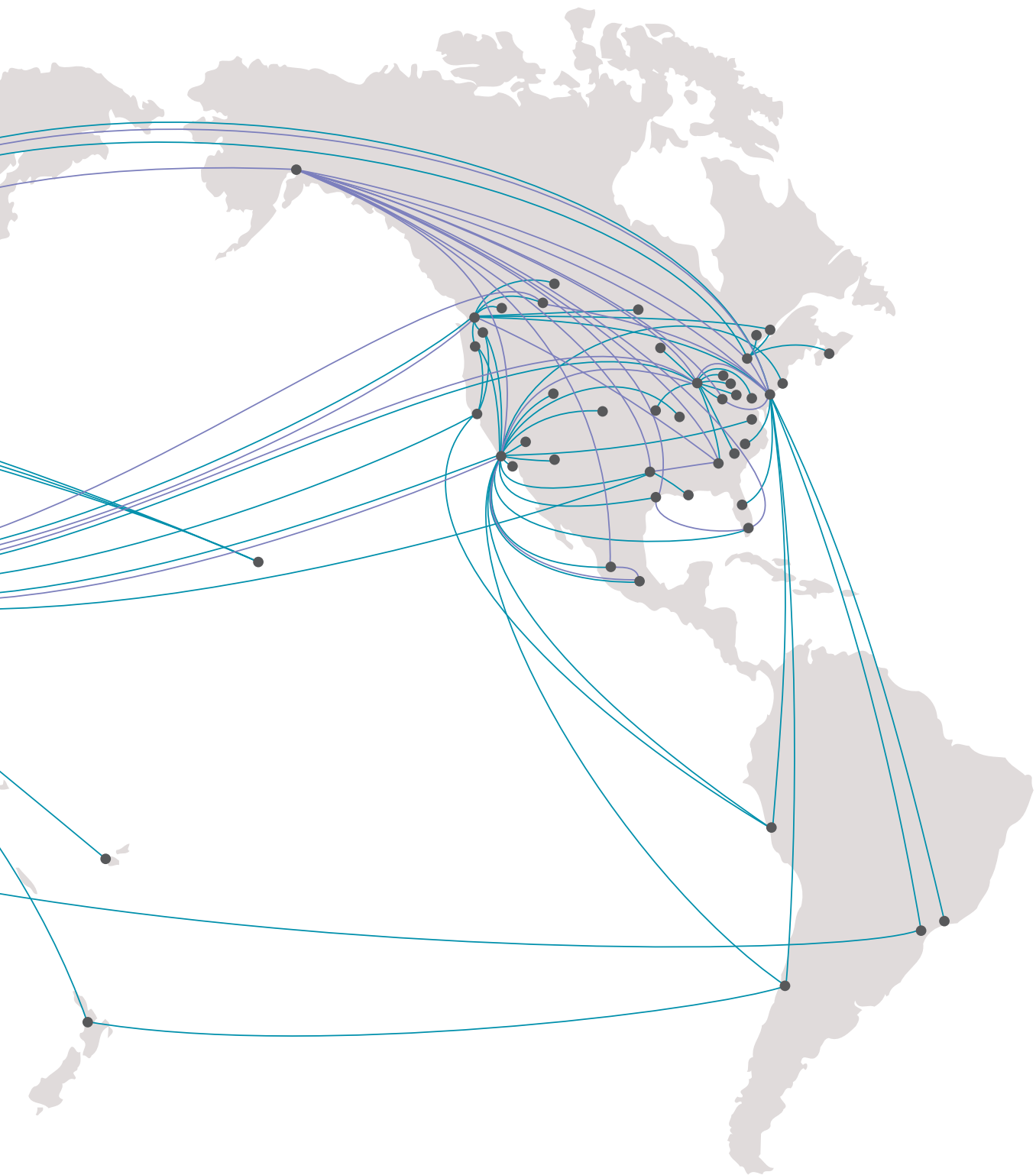
### STRATEGY

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 fleets of Cathay Pacific and Dragonair (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.

Network Coverage





## 2014 PERFORMANCE

Cathay Pacific and Dragonair		2014	2013	Change
Available tonne kilometres ("ATK")	Million	<b>28,440</b>	26,259	+8.3%
Available seat kilometres ("ASK")	Million	<b>134,711</b>	127,215	+5.9%
Passenger revenue	HK\$M	<b>75,734</b>	71,826	+5.4%
Revenue passenger kilometres ("RPK")	Million	<b>112,257</b>	104,571	+7.4%
Revenue passengers carried	'000	<b>31,570</b>	29,920	+5.5%
Passenger load factor	%	<b>83.3</b>	82.2	+1.1%pt
Passenger yield	HK¢	<b>67.3</b>	68.5	-1.8%
Cargo revenue – group	HK\$M	<b>25,400</b>	23,663	+7.3%
Cargo revenue – Cathay Pacific and Dragonair	HK\$M	<b>22,035</b>	20,293	+8.6%
Cargo and mail carried	Tonnes '000	<b>1,723</b>	1,539	+12.0%
Cargo and mail load factor	%	<b>64.3</b>	61.8	+2.5%pt
Cargo and mail yield	HK\$	<b>2.19</b>	2.32	-5.6%
Cost per ATK (with fuel)	HK\$	<b>3.50</b>	3.58	-2.2%
Cost per ATK (without fuel)	HK\$	<b>2.12</b>	2.16	-1.9%
Aircraft utilisation	Hours per day	<b>12.2</b>	11.8	+3.4%
On-time performance	%	<b>70.1</b>	75.5	-5.4%pt
Average age of fleet	Years	<b>9.1</b>	9.3	-2.2%
Number of destinations at year end	Destinations	<b>210</b>	190	+10.5%
Fuel consumption – group	Barrels (million)	<b>41.7</b>	39.5	+5.6%

HAECO Group		2014	2013	Change
Airframe services manhours sold – HAECO Hong Kong	Million	<b>2.46</b>	2.56	-4%
Airframe services manhours sold – HAECO Americas	Million	<b>3.66</b>	N/A	N/A
Airframe services manhours sold – HAECO Xiamen	Million	<b>3.55</b>	3.68	-4%
Line services movements handled – HAECO Hong Kong	Average per day	<b>328</b>	329	-0.3%

## Financial Highlights

	2014	2013
	HK\$M	HK\$M
<b>HAECO group</b>		
Revenue	<b>11,927</b>	7,387
Operating profit	<b>509</b>	266
Attributable profit	<b>430</b>	469
<b>Share of post-tax profits from associated companies</b>		
Cathay Pacific group	<b>1,418</b>	1,179
<b>Attributable profit</b>	<b>1,822</b>	1,627

## Cathay Pacific group – Sustainable Development Highlights

	2014	2013
GHG emissions per ATK (Grammes of CO <sub>2</sub> e)	<b>576</b>	589
LTIR	<b>3.67</b>	4.84

Note: 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 209 to 211.



Left | Cathay Pacific was named "World's Best Airline" in the annual Skytrax World Airline Awards in 2014 for the fourth time.

Right | In 2014, Cathay Pacific took delivery of nine Boeing 777-300ER aircraft and five Airbus A330-300 aircraft.

## CATHAY PACIFIC GROUP

### AIRLINE INDUSTRY BACKGROUND

In the first half of 2014 the airline industry was affected by high fuel prices, reduced passenger yield and continued weakness and over-capacity in the air cargo market. After a prolonged period of weakness, cargo demand started to improve in the summer of 2014. The industry benefited from lower fuel prices in the fourth quarter.

### 2014 RESULTS SUMMARY

The Cathay Pacific group's attributable profit on a 100% basis was HK\$3,150 million in 2014, compared to a profit of HK\$2,620 million in 2013.

Passenger revenue in 2014 was HK\$75,734 million, an increase of 5% compared with 2013. Capacity increased by 6%, as a result of the introduction of

new routes (to Doha, Manchester and Newark) and increased frequencies on some existing routes. 31.6 million passengers were carried, an increase of 6% compared to the previous year. The passenger load factor increased by 1.1 percentage points. Yield decreased by 2% to HK\$67.3 cents despite an improvement in the second half compared to the first half of the year. Passenger demand was strong in all classes of travel on long-haul routes. However, the increase in passenger numbers did not match the increase in capacity on North American routes. Strong competition put downward pressure on yield on regional routes.

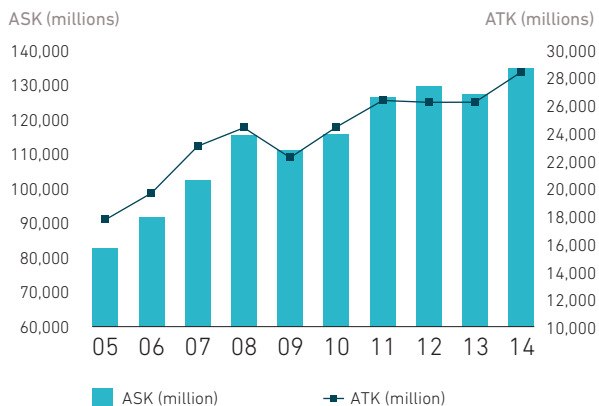
The Cathay Pacific group's cargo revenue in 2014 was HK\$25,400 million, an increase of 7% compared to 2013. Cargo capacity for Cathay Pacific and Dragonair increased by 10%. The cargo load factor increased by 2.5 percentage points to 64.3%. The tonnage carried in 2014 was

1.7 million tonnes, an increase of 12% in comparison with 2013. Over-capacity in the air cargo market put downward pressure on rates in the first half of the year. Yield for the full year for Cathay Pacific and Dragonair decreased by 6% to HK\$2.19 despite improved cargo demand in the second half of the year.

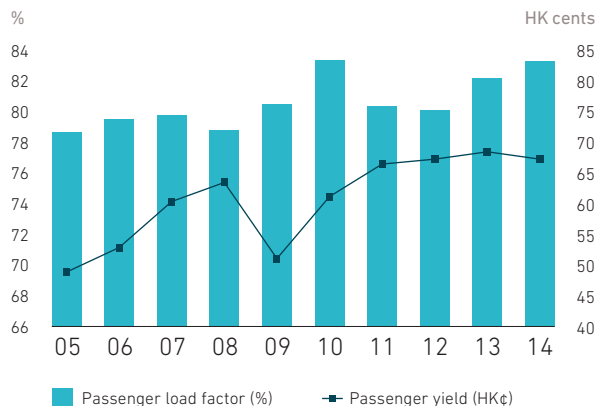
Fuel is the Cathay Pacific group's most significant cost, accounting for 39% of its total operating costs. Disregarding the effect of fuel hedging, the group's fuel costs increased by HK\$271 million or 1% in 2014 compared to 2013. The increase in fuel costs reflected a 6% increase in fuel consumption and a 5% decrease in the average into-plane fuel price. Fuel consumption increased because more flights were operated but the introduction of more fuel efficient aircraft and the retirement of less fuel efficient aircraft moderated the increase.



### Capacity – Available Seat Kilometres and Available Tonne Kilometres



### Passenger Services Load Factor and Yield



Cathay Pacific hedges some of its fuel costs in an effort to manage the risk associated with changing fuel prices. In 2014, a loss of HK\$911 million was recognised in Cathay Pacific's profit and loss account from fuel hedging activities. The sharp reduction in fuel prices in the fourth quarter of 2014 also resulted in significant unrealised hedging losses. These unrealised losses are reflected in Swire Pacific's consolidated statement of financial position at 31st December 2014 under associated companies. Swire Pacific's share of Cathay Pacific's unrealised hedging losses amounted to HK\$5,611 million.

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 in all classes of travel on long-haul routes. However, the increase in passenger numbers did not match the increase in capacity on North American routes. Strong competition put downward pressure on yield on regional routes.

Cathay Pacific introduced passenger services to Doha, Manchester and Newark in 2014. It will introduce passenger services to Zurich in March 2015, to Boston in May 2015 and to Dusseldorf in September 2015. Cathay Pacific reorganised its network in the Middle East in 2014. It stopped flights to Abu Dhabi and Jeddah but improved its schedules on other Middle Eastern routes. Cathay Pacific stopped flying to Karachi. The Los Angeles service was increased to four-times-daily from June 2014. The San Francisco service will be increased to 17-times-weekly in June 2015.

Dragonair started flying to Denpasar in Bali and Penang (replacing Cathay Pacific on the latter route), increased frequencies on a number of other routes and will introduce a daily service to Haneda in Tokyo in March 2015. Dragonair will stop flying to Manila in March 2015.

### Cargo Services

#### Cathay Pacific and Dragonair

After a prolonged period of weakness, cargo demand started to improve in the summer of 2014 and was strong in the fourth quarter, which is the peak period for cargo. Cathay Pacific managed capacity in line with demand in the first half of 2014. It was able to operate an

almost full freighter schedule for most of the second half. The new cargo terminal at Hong Kong International Airport worked effectively in its first full year of operation and made the Cathay Pacific group's cargo operations more efficient.

Cathay Pacific tagged Mexico City onto its Guadalajara cargo service in March 2014 and increased this service to five flights per week in October 2014. It introduced cargo services to Columbus in March 2014, to Calgary in October 2014, to Phnom Penh in November 2014 and to Kolkata in March 2015.

### Air Hong Kong

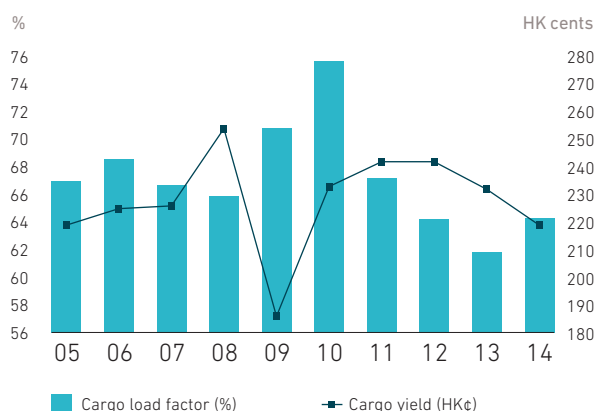
Air Hong Kong achieved a modest increase in profit for 2014 compared with 2013. Capacity increased by 0.3% and the load factor increased by 0.6 percentage points.

### Fleet Profile

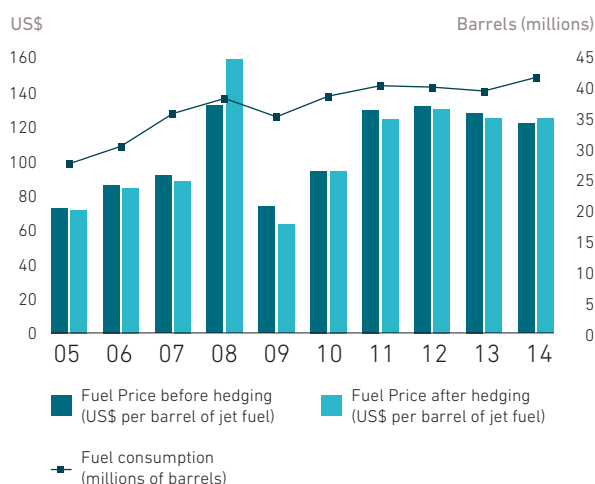
At 31st December 2014, the total number of aircraft in the Cathay Pacific and Dragonair fleets was 188, an increase of seven since 31st December 2013.

In 2014, Cathay Pacific took delivery of 14 new aircraft (nine Boeing 777-300ER aircraft and five Airbus A330-300 aircraft) and Dragonair took delivery of two Airbus A321-200 aircraft.

## Cargo Services Load Factor and Yield



## Fuel Price and Consumption



## Fleet Profile\*

Aircraft type	Number at 31st December 2014				Firm orders			Expiry of operating leases							
	Owned	Finance	Operating	Total	'15	'16	'17 and beyond	Total	'15	'16	'17	'18	'19	'20 and beyond	Options
<b>Aircraft operated by Cathay Pacific</b>															
A330-300	19	15	6	40	3 <sup>(a)</sup>			3		1	3				2
A340-300	8	3		11 <sup>(b)</sup>											
A350-900						12 <sup>(c)</sup>	10	22							
A350-1000							26	26							
747-400	6 <sup>(d)</sup>		1	7					1						
747-400F	5			5 <sup>(e/f)</sup>											
747-400BCF			1 <sup>(g)</sup>	1								1			
747-400ERF		6		6											
747-8F	2	11		13		1 <sup>(f)</sup>		1							
777-200	5			5											
777-200F															5 <sup>(h)</sup>
777-300	8	4		12											
777-300ER	13	11	23	47	6 <sup>(f/i)</sup>			6			2	2		19	
777-9X							21 <sup>(f)</sup>	21							
<b>Total</b>	<b>66</b>	<b>50</b>	<b>31</b>	<b>147</b>	<b>9</b>	<b>13</b>	<b>57</b>	<b>79</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>3</b>		<b>21</b>	<b>5</b>
<b>Aircraft operated by Dragonair</b>															
A320-200	5		10	15								2	1		7
A321-200	2		6	8											6
A330-300	10		8	18					1	1	5			1	
<b>Total</b>	<b>17</b>		<b>24</b>	<b>41</b>					<b>1</b>	<b>1</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>13</b>	
<b>Aircraft operated by Air Hong Kong</b>															
A300-600F	2	6	1	9								1			
747-400BCF			3	3							1	2			
<b>Total</b>	<b>2</b>	<b>6</b>	<b>4</b>	<b>12<sup>(j)</sup></b>							<b>1</b>	<b>2</b>	<b>1</b>		
<b>Grand total</b>	<b>85</b>	<b>56</b>	<b>59</b>	<b>200</b>	<b>9</b>	<b>13</b>	<b>57</b>	<b>79</b>	<b>2</b>	<b>3</b>	<b>12</b>	<b>6</b>	<b>2</b>	<b>34</b>	<b>5</b>

\* Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2014.

(a) One aircraft was delivered in February 2015.

(b) Cathay Pacific is accelerating the retirement of 11 Airbus A340-300 aircraft. Four of these aircraft (one of which was retired in March 2015) will have been retired by the end of 2015. The remainder will be retired by the end of 2017.

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

(d) One aircraft was retired in January 2015 and three aircraft were retired in March 2015.

(e) Two aircraft were parked in January 2014.

(f) 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. One of the Boeing 747-400F freighters was delivered to The Boeing Company in November 2014.

(g) Aircraft was parked in August 2013.

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

(i) One aircraft was delivered in February 2015 and one aircraft was delivered in March 2015.

(j) Air Hong Kong also has one wet-leased Airbus A300-600F freighter. Accordingly, it operates a total of 13 aircraft.



The lounge at Tokyo's Haneda airport, which opened in 2014, is one of the largest Cathay Pacific lounges outside Hong Kong. It offers a comfortable environment of understated luxury for first and business class passengers.

Six Boeing 747-400 passenger aircraft were retired in 2014. In 2013, Cathay Pacific agreed to sell its six Boeing 747-400F freighters back to The Boeing Company. One of them was delivered in November 2014. Two of the remaining freighters are parked and all five will have left the fleet by the end of 2016.

In 2015, Cathay Pacific expects to take delivery of nine new aircraft. Two of them were delivered in February 2015 and one of them was delivered in March 2015. Cathay Pacific plans to retire four Boeing 747-400 passenger aircraft in 2015. One of them was retired in January 2015 and three were retired in March 2015.

In 2014, Cathay Pacific decided to accelerate the retirement of 11 Airbus A340-300 aircraft. Four of these aircraft (one of which was retired in March 2015) will have been retired by the end of 2015. The remaining seven will have left the fleet by the end of 2017.

At 31st December 2014, the Cathay Pacific group had 79 new aircraft on order for delivery up to 2024.

### Sustainable Development

Greenhouse gas emissions per unit of capacity (measured in available tonne kilometres) decreased by 2% in 2014 from 2013. This improvement reflects the introduction of more fuel efficient aircraft and the retirement of less fuel efficient aircraft.

The lost time injury rate fell by 24% in 2014, principally due to a reduction in the number of injuries to cabin crew.

### Other Operations

#### Air China

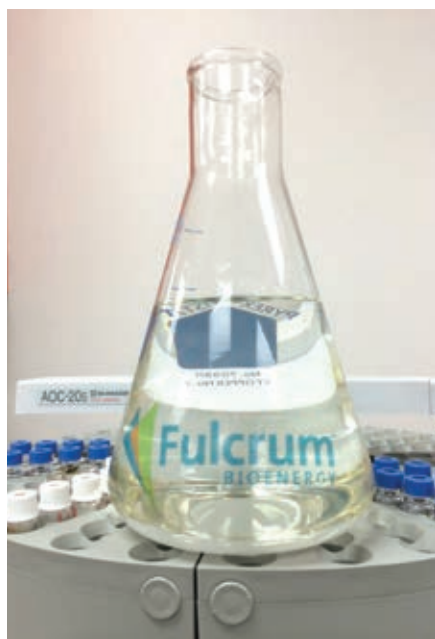
The Cathay Pacific group's share of Air China's results is based on its financial statements drawn up three months in arrears. Consequently, the 2014 results

include Air China's results for the 12 months ended 30th September 2014, adjusted for any significant events or transactions for the period from 1st October 2014 to 31st December 2014.

In the first half of 2014, Air China's results were adversely affected by a difficult operating environment and substantial foreign exchange losses caused by the depreciation of the Renminbi. As the year progressed, Air China's results improved as a result of lower fuel prices. Despite this improvement, the Cathay Pacific group recorded a decrease in profit from Air China in 2014.

#### Air China Cargo

Air China Cargo's financial results improved in 2014. This reflected the general improvement in the air cargo market from the summer of 2014 and improved operating efficiency resulting from the replacement of three Boeing 747-400BCF converted freighters by four Boeing 777-200F freighters in 2014.



In 2014, Cathay Pacific made a minority investment in Fulcrum BioEnergy, Inc., a company which converts municipal solid waste into sustainable aviation fuel. Cathay Pacific also entered into a long-term supply agreement with Fulcrum for 375 million gallons of sustainable aviation fuel, representing (on an annual basis) approximately 2% of the airline's current annual fuel consumption.

#### Cathay Pacific Services Limited ("CPSL")

CPSL, a wholly-owned subsidiary of Cathay Pacific, operates the Cathay Pacific group's cargo terminal at Hong Kong International Airport.

2014 was the first year of full operations of CPSL. As a consequence, its financial results improved significantly in 2014.

#### Cathay Pacific Catering Services group ("CPCS")

CPCS, a wholly-owned subsidiary of Cathay Pacific, operates the principal flight kitchen in Hong Kong.

Increased business volume and effective management of costs resulted in higher revenue and profit in 2014.

#### Hong Kong Airport Services Limited ("HAS")

HAS, a wholly-owned subsidiary of Cathay Pacific, provides ramp and

passenger handling services at Hong Kong International Airport.

The financial results for 2014 improved, reflecting stringent cost control and yield management.

#### OUTLOOK

It was encouraging to see an overall improvement in the Cathay Pacific group's business in 2014. The improvement has continued in the first quarter of this year and we are positive about the overall prospects for 2015. Demand in the cargo business continues to improve and is currently being helped by the congestion in sea ports on the West Coast of the United States. Our airlines continue to benefit from the lower net fuel price. The associated companies of Cathay Pacific are also benefiting from these positive factors. While there is growing competition in the passenger business, which makes it

harder to maintain yield, overall demand remains strong and the outlook is positive.

In 2014 efforts were continued to make Cathay Pacific and Dragonair better airlines for their customers. The fact that Cathay Pacific won the World's Best Airline award for the fourth time is clear recognition from air travellers worldwide of the work that has gone into providing superior products and services. The Cathay Pacific group's financial position remains strong, which will enable it to continue with its long-term strategic investment in the business and commitment to reinforcing Hong Kong's position as one of the world's premier aviation hubs.

**Ivan Chu**



The HAECO group is a leading independent aircraft engineering company offering a full range of airframe, cabin, component and engine services.

## HONG KONG AIRCRAFT ENGINEERING COMPANY ("HAECO") GROUP

### AVIATION MAINTENANCE AND REPAIR INDUSTRY BACKGROUND

The global aviation maintenance and repair market continued to change in 2014. New aircraft types which require less maintenance replaced older aircraft types, and original equipment manufacturers were aggressively entering the aftersales market.

### 2014 RESULTS SUMMARY

The HAECO group's profit attributable to shareholders in 2014 on a 100% basis was HK\$573 million, a decrease of 8% compared to the corresponding figure in 2013 of HK\$625 million.

A total of 9.67 million airframe services manhours were sold by HAECO Hong

Kong, HAECO Americas and HAECO Xiamen in 2014. HAECO Americas contributed 3.66 million manhours. The positive effect of this first time contribution was partially offset by decreases in manhours sold of 4% at HAECO Hong Kong and at HAECO Xiamen. Demand for HAECO Hong Kong's line services was stable.

HAESL overhauled 147 engines in 2014, 24% fewer than in 2013 and as a result profits were lower. TEXL recorded a substantially higher profit in 2014, having overhauled 71 engines.

A loss was recorded from the group's other subsidiary and joint venture companies. This principally reflected a higher loss from HAECO Landing Gear Services.

### HAECO Hong Kong

HAECO Hong Kong recorded a 72% increase in attributable profit in 2014 to HK\$103 million.

Manhours sold for airframe services decreased from 2.56 million in 2013 to 2.46 million in 2014. More workers were employed but it takes time to train them. So capacity was still constrained, but the position eased in the second half of the year. Approximately 72% of the work was for airlines based outside Hong Kong.

Line services manhours sold increased by 2% despite a marginal decrease in the average number of aircraft movements handled.

Cost savings helped to improve the overall results of HAECO Hong Kong.

## Financial Highlights

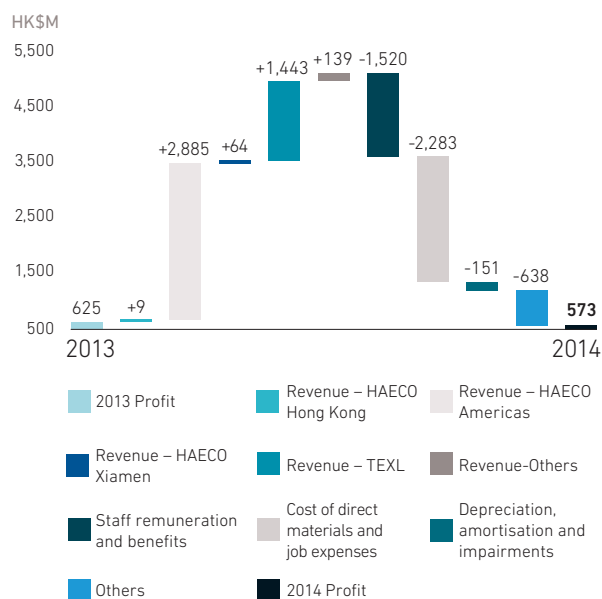
	2014 HK\$M	2013 HK\$M	Change %
<b>Revenue</b>			
HAECO Hong Kong	3,178	3,169	+0%
HAECO Americas	2,885	N/A	N/A
HAECO Xiamen	1,924	1,860	+3%
TEXL	3,538	2,095	+69%
Others	402	263	+53%
<b>Net operating profit</b>	<b>439</b>	228	+93%
<b>Profit attributable to the Company's shareholders</b>			
HAECO Hong Kong	103	60	+72%
HAECO Americas	(45)	(35)	-29%
HAECO Xiamen	89	90	-1%
TEXL	166	39	+326%
<b>Share of profit/(loss) of:</b>			
HAESL and SAESL	267	465	-43%
Other subsidiary and joint venture companies	(7)	6	-217%
<b>Total</b>	<b>573</b>	625	-8%
<b>Swire Pacific share</b>	<b>430</b>	469	-8%

## Sustainable Development Highlights

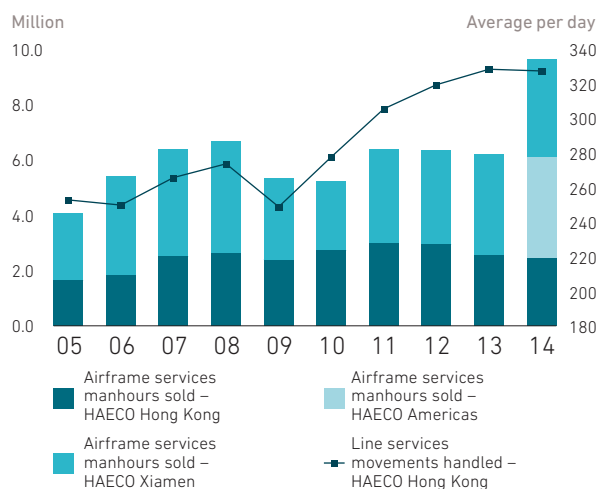
	2014	2013	Change %
Average training hours (per employee per year)	53	65	-18%
LTIR	1.57	1.68	-7%
Energy intensity (kWh per airframe services manhour)	12.2	11.9	+2%

Note: Energy intensity measures the electricity consumption for every airframe services manhour worked in Hong Kong.

## HAECO Group – Movement in Attributable Profit



## HAECO Group – Key Operating Highlights



The acquisition of HAECO Americas (formerly known as TIMCO Aviation Services) was completed in February 2014.



### HAECO Americas

The acquisition of TIMCO Aviation Services, Inc. was completed in February 2014. Now known, with its intermediate holding company, as HAECO Americas, it recorded a loss of HK\$45 million for the year. The loss principally reflected the costs of reducing the size of a seat manufacturing facility and the financing costs associated with the acquisition.

Demand for HAECO Americas' airframe services was strong. 3.66 million manhours were sold in the period following the acquisition, higher than those sold in the corresponding period of 2013. Four line services stations were opened in 2014. There are now stations at 19 airports in the United States. Demand for Pratt & Whitney JT8D engine overhaul work was steady in 2014. 50 engines were overhauled and four were sold.

HAECO Americas worked on 44 cabin integration programmes and shipped approximately 8,600 premium economy and economy seats. The financial results

were adversely affected by the deferral of work and the costs of reducing the size of a seat manufacturing facility.

### HAECO Xiamen

HAECO Xiamen recorded a 1% decrease in attributable profit in 2014 to HK\$89 million.

Demand for airframe services was stable in the first half of 2014 but weakened in the second half. Manhours sold were 3.55 million in 2014, a decrease of 4% from 2013. Four passenger to freighter conversions were completed in 2014.

Revenue and profit from private jet work increased significantly in 2014.

### HAESL and SAESL

HAESL recorded a 47% decrease in profit in 2014. Fewer engines were overhauled and less work was done per engine. This reflected the retirement of aircraft operating RB211-524 and Trent 500 engines and a reduction in the

frequency of scheduled maintenance of Trent 700 engines. Engine output was 147, compared with 193 in 2013. SAESL recorded a 27% decrease in profit in 2014.

### TEXL

Profits increased significantly at TEXL to HK\$166 million, compared with a profit of HK\$39 million in 2013.

In 2014, TEXL completed 34 quick turn repairs and 37 performance restorations of General Electric engines (compared with 40 quick turn repairs and 19 performance restorations in 2013) and did more work per engine.

In September 2014, GE Aviation acquired a 9.9% equity interest in TEXL.

### Other Principal Subsidiary and Joint Venture Companies

HAECO ITM provided inventory technical management services for 257 aircraft in 2014, 11% more than in 2013.



TEXL is an authorised GE90 engine service provider and is recognised as a GE90 Centre of Excellence.

HAECO Landing Gear Services resumed landing gear overhaul work for customers in April 2014. It reported a higher loss in 2014 than in 2013 because the 2013 results included income from a business interruption insurance policy.

HAECO Component Overhaul (Xiamen) started to operate in May 2014. It incurred a loss in 2014. This reflected staff training and pre-operating costs.

### Sustainable Development

The group's average training hours per employee decreased by 18% to 53 hours in 2014. This was principally due to 2013 training courses not being repeated in 2014.

The group's lost time injury rate decreased by 7% from 2013 to 2014. There were fewer injuries at HAECO Hong Kong, HAESL and TEXTL.

HAECO Hong Kong's energy intensity increased slightly in 2014.

### OUTLOOK

The HAECO group continues to invest in order to increase the scale of its operations and technical capabilities and to improve and widen the range of services it can offer to customers.

As training of new recruits progresses, airframe maintenance capacity in Hong Kong will increase in 2015. Demand for line services in Hong Kong is expected to fall as a result of the loss of a portion of the work from a significant customer in 2014.

Demand for HAECO Americas' airframe maintenance services is expected to weaken. The performance of its cabin and seat business is expected to improve. Demand for HAECO Xiamen's airframe maintenance services is expected to improve, but less private jet work is expected.

HAESL's performance will continue to be adversely affected by the retirement of

aircraft operating RB211-524 and Trent 500 engines and by a reduction in the frequency of scheduled maintenance of Trent 700 engines. TEXTL is expected to continue to perform well.

The municipal government of Xiamen's proposal to develop a new airport at Xiang'an is being evaluated by the National Development and Reform Commission in Beijing. The timing of the development of the new airport and its impact on the operations of HAECO Xiamen and other HAECO group companies at the existing airport are not clear. Management maintains regular communication with the local authorities in order to understand the likely path of development.

**Augustus Tang**