Cathay Pacific introduced a new livery as part of the airline's effort to enhance customer experience.

AVIATION DIVISION

ADVANCING WORLD-CLASS SERVICE

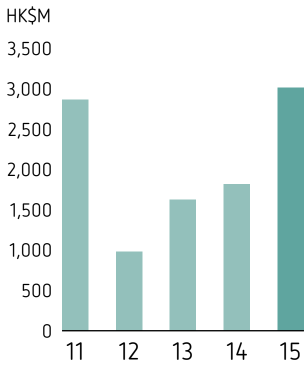
We aim to continue to improve our products and services on the ground and in the air, to expand our fleet by acquiring fuel efficient aircraft and to strengthen our aircraft engineering business.

OVERVIEW OF THE BUSINESS

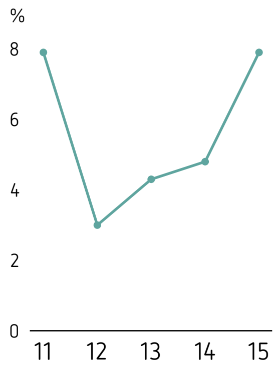
AVIATION DIVISION

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

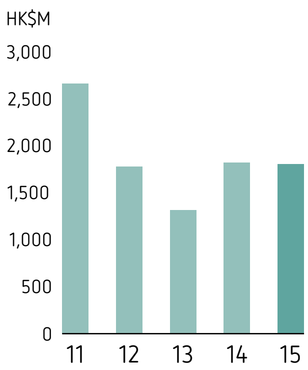
Profit Attributable to the Company's Shareholders



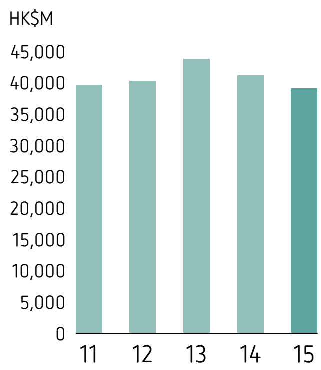
Return on Net Assets Employed



Net Cash Generated from Operating Activities



Net Assets Employed



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 179 destinations in 43 countries and territories. At 31st December 2015, it operated 146 aircraft and had 70 new aircraft due for delivery up to 2024.

Dragonair is a regional airline registered and based in Hong Kong. It operates 42 aircraft on scheduled services to 53 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 2015, Air China operated 245 domestic and 115 international, including regional, routes. Cathay Pacific has a cargo joint venture with Air China (Air China Cargo), which operated 15 freighters at 31st December 2015 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 2015, Air Hong Kong operated 13 freighters.

Cathay Pacific and its subsidiaries employ more than 33,600 people worldwide (around 25,800 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 Hong Kong), in Xiamen (by HAECO Xiamen) and in the USA (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.

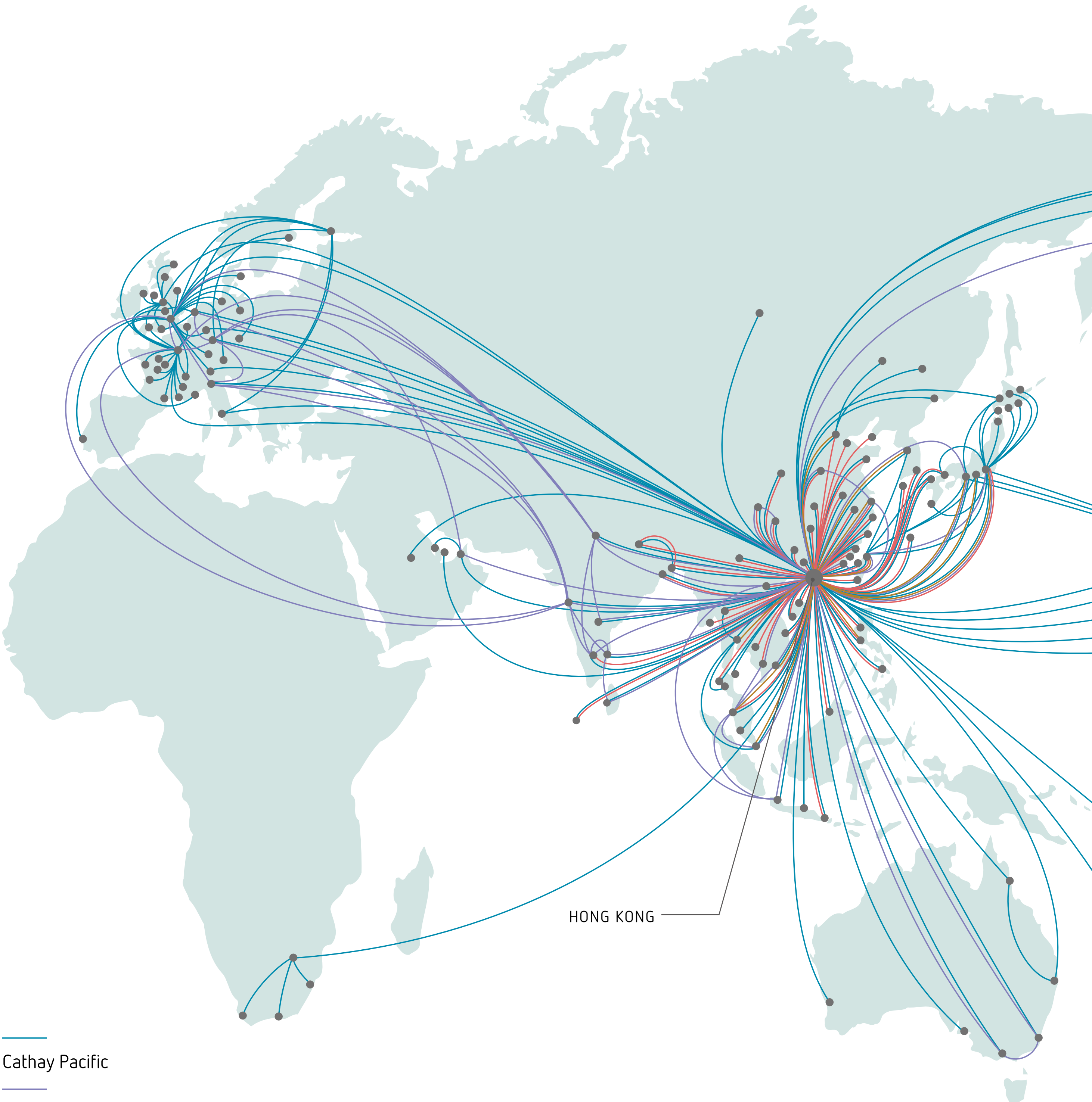
HAECO is listed on The Stock Exchange of Hong Kong Limited.

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.**

Cathay Pacific group — Network Coverage

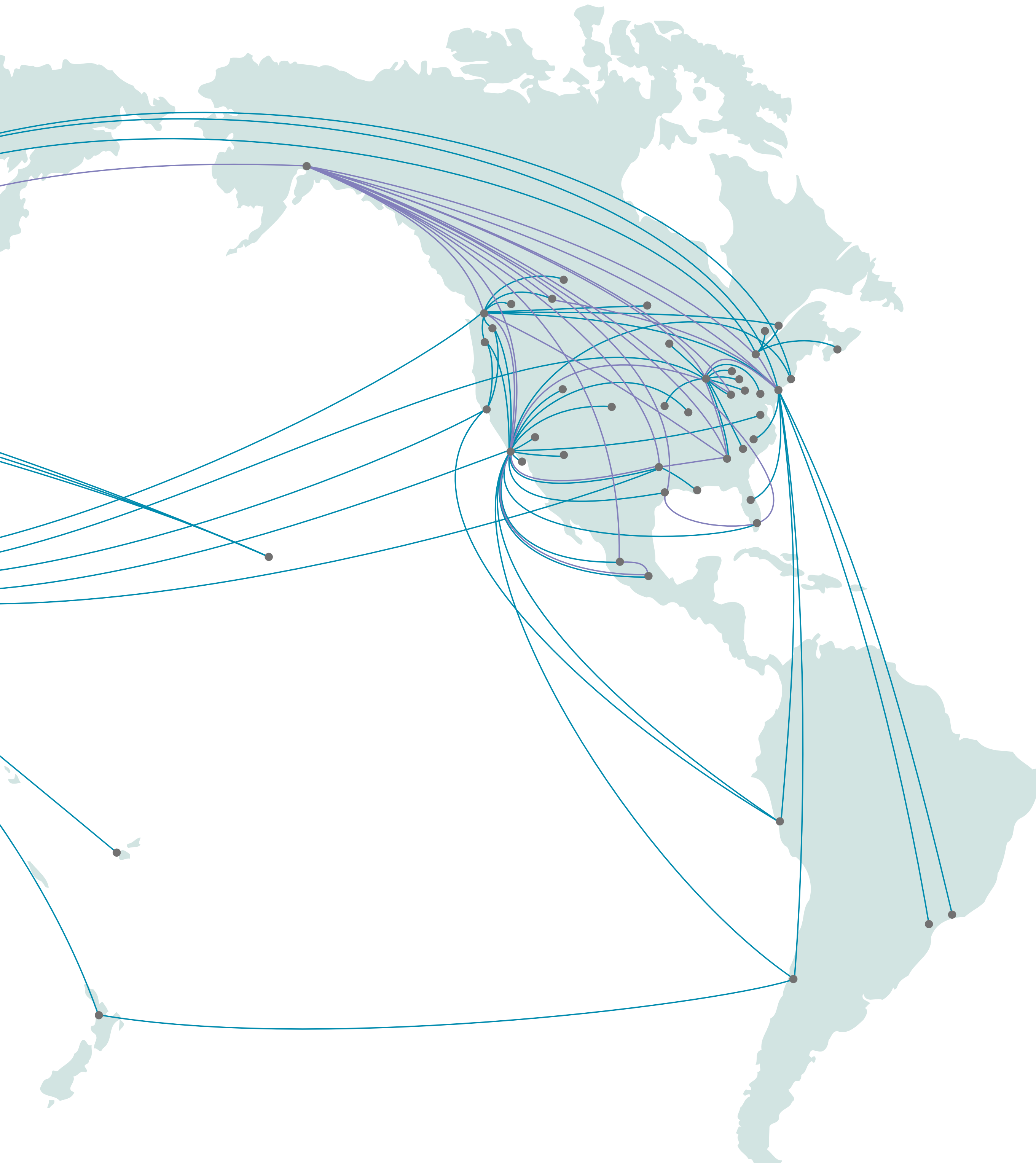


Cathay Pacific

Cathay Pacific Freighter

Dragonair

Air Hong Kong



2015 PERFORMANCE

Financial Highlights

	2015 HK$M	2014 HK$M
HAECO group		
Revenue	**12,095**	11,927
Operating profit	**415**	509
Attributable profit	**349**	430
Cathay Pacific group		
Share of post-tax profits from associated companies	**2,700**	1,418
Attributable profit	**3,017**	1,822

Accounting for the Aviation Division
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 197 and 198. The figures above do not include consolidation adjustments.

CATHAY PACIFIC GROUP

Operating Highlights – Cathay Pacific and Dragonair

		2015	2014	Change
Available tonne kilometres ("ATK")	Million	**30,048**	28,440	+5.7%
Available seat kilometres ("ASK")	Million	**142,680**	134,711	+5.9%
Passenger revenue	HK$M	**73,047**	75,734	-3.5%
Revenue passenger kilometres ("RPK")	Million	**122,330**	112,257	+9.0%
Revenue passengers carried	'000	**34,065**	31,570	+7.9%
Passenger load factor	%	**85.7**	83.3	+2.4%pt
Passenger yield	HK¢	**59.6**	67.3	-11.4%
Cargo revenue – group	HK$M	**23,122**	25,400	-9.0%
Cargo revenue – Cathay Pacific and Dragonair	HK$M	**20,079**	22,035	-8.9%
Cargo and mail carried	Tonnes '000	**1,798**	1,723	+4.4%
Cargo and mail load factor	%	**64.2**	64.3	-0.1%pt
Cargo and mail yield	HK$	**1.90**	2.19	-13.2%
Cost per ATK (with fuel)	HK$	**3.14**	3.50	-10.3%
Cost per ATK (without fuel)	HK$	**2.06**	2.12	-2.8%
Aircraft utilisation	Hours per day	**12.2**	12.2	–
On-time performance	%	**64.7**	70.1	-5.4%pt
Average age of fleet	Years	**9.1**	9.1	–
Number of destinations at year end	Destinations	**193**	210	-17
Fuel consumption – group	Barrels (million)	**43.5**	41.7	+4.3%

Sustainable Development Highlights

	2015	2014
GHG emissions per ATK (Grammes of CO_2e)	**569**	576
LTIR	**2.77**	3.67

Note: Greenhouse gas emissions disclosed above are from jet fuel combustion only.

Cathay Pacific offers world-class service.

AIRLINE INDUSTRY BACKGROUND

The operating environment in 2015 was better than in 2014. The airline industry benefited from low fuel prices, but yields were under pressure. Air cargo demand, which came under pressure during the second quarter of the year, remained weak in the second half.

2015 RESULTS SUMMARY

The Cathay Pacific group's attributable profit on a 100% basis was HK$6,000 million in 2015, compared with a profit of HK$3,150 million in 2014. The airlines' profit after tax was HK$3,572 million (2014: HK$1,846 million), and the share of profits from subsidiaries and associates was HK$2,428 million (2014: HK$1,304 million).

Passenger Services

Passenger revenue in 2015 was HK$73,047 million, a decrease of 4% compared with 2014. 34.1 million passengers were carried, an increase of 8% compared to the previous year.

Capacity increased by 6%, reflecting the introduction of new routes (to Boston, Düsseldorf, Hiroshima and Zurich) and increased frequency on some other routes.

The passenger load factor increased by 2.4 percentage points. Economy class demand was strong. Premium class demand improved on regional routes, but was not as strong as expected on some long-haul routes.

Strong competition, a significant reduction in fuel surcharges, unfavourable foreign currency movements and the fact that a higher proportion of passengers were connecting through Hong Kong put downward pressure on yield, which decreased by 11% to HK59.6 cents.

Cargo Services

Cathay Pacific and Dragonair

Cathay Pacific and Dragonair's cargo revenue in 2015 was HK$20,079 million, a decrease of 9% compared to 2014. This principally reflected a reduction in fuel surcharges consequent upon low fuel prices. The tonnage carried in 2015 increased by 4% to 1.8 million tonnes compared to 2014.

The cargo capacity of Cathay Pacific and Dragonair increased by 5%.

The cargo load factor decreased by 0.1 percentage point to 64.2%. Cargo demand was strong in the first quarter of 2015, assisted by industrial action at ports on the west coast of the USA. Overall demand was weak for the rest of the year, particularly on European routes. Freighter capacity was reduced on some routes in line with reduced demand.

Strong competition, overcapacity, unfavourable foreign currency movements and the reduction in fuel surcharges put pressure on yield, which decreased by 13%, to HK$1.90. A higher proportion (57%) of total cargo shipments was carried in the bellies of passenger aircraft in 2015.

The Pier first class lounge at Hong Kong International Airport was reopened following an extensive renovation.

Air Hong Kong

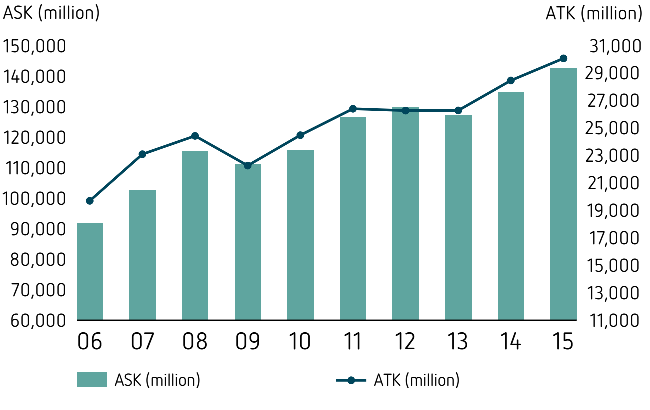
Air Hong Kong achieved an increase in profit for 2015 compared with 2014. Capacity in terms of available tonne kilometres increased by 1% to 776 million. The load factor increased by 0.4 percentage points to 66.5%.

Operating Costs

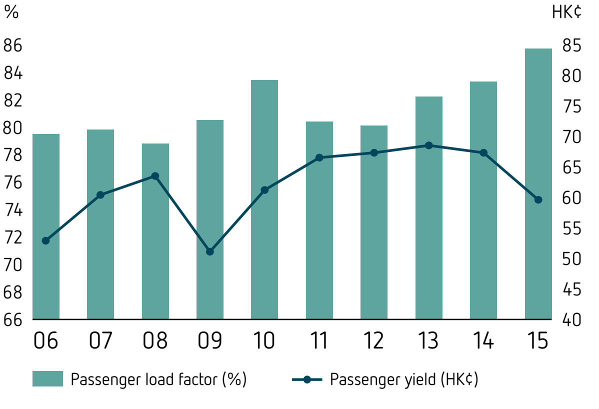
Total fuel costs for the Cathay Pacific group (before the effect of fuel hedging) decreased by HK$14,894 million (or 38%) compared to 2014, despite increases in capacity. A 40% decrease in average fuel prices was partially offset by a 4% increase in consumption. Fuel is still the Cathay Pacific group's most significant cost, accounting for 34% of total operating costs in 2015 (compared with 39% in 2014).

Cathay Pacific hedges some of its fuel costs in an effort to manage the risk associated with changing fuel prices. In 2015, a loss of HK$8,474 million was recognised in Cathay Pacific's profit and loss account from fuel hedging activities. This partially offset the benefit of lower fuel costs. After taking hedging losses into account, net fuel costs decreased by HK$7,331 million (or 18%) compared to 2014.

Capacity – Available Seat Kilometres and Available Tonne Kilometres



Passenger Services Load Factor and Yield



The continued decline in fuel prices gave rise to additional unrealised hedging losses of HK$5,417 million for Cathay Pacific. Swire Pacific's share of these losses (amounting to HK$2,438 million) is reflected in Swire Pacific's consolidated statement of financial position at 31st December 2015 under associated companies.

Non-fuel costs increased by 2% in 2015 compared to 2014.

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.

In December 2015, the General Court annulled the European Commission's finding against Cathay Pacific in November 2010. The fine of €57 million previously imposed on Cathay Pacific was refunded in February 2016. The refund has been recognised in Cathay Pacific's 2015 results.

Fleet Profile

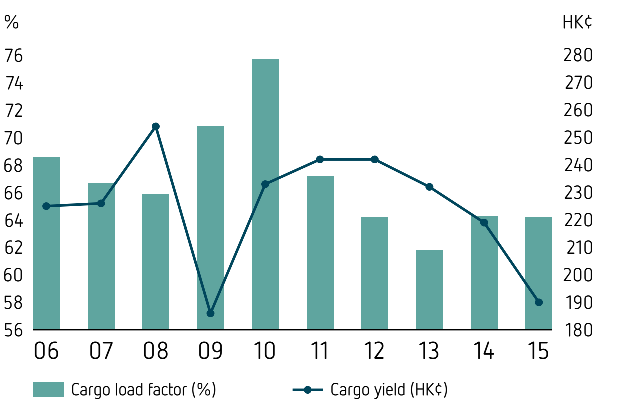
At 31st December 2015, the total number of aircraft in the Cathay Pacific and Dragonair fleets was 188, the same number as at 31st December 2014.

In 2015, Cathay Pacific took delivery of six Boeing 777-300ER aircraft and three Airbus A330-300 aircraft. The Boeing 777-300ER aircraft delivered in late September 2015 was the 53rd and final aircraft of this type to join the fleet.

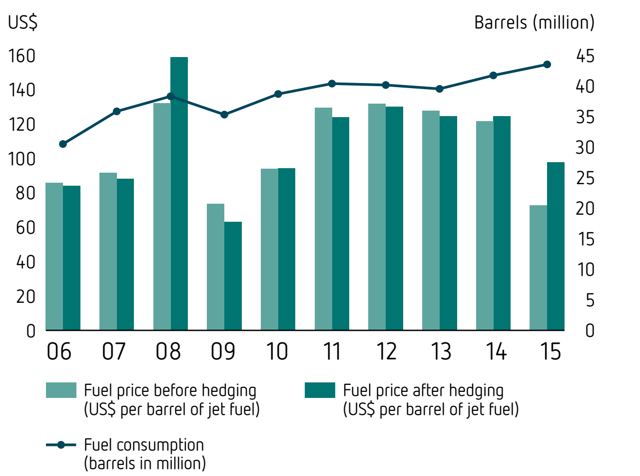
Four Boeing 747-400 passenger aircraft and four Airbus A340 aircraft were retired in 2015. The retirement of the remaining three Boeing 747-400 passenger aircraft has been brought forward from 2017 to 2016. In 2013, Cathay Pacific agreed to sell six Boeing 747-400F freighters to The Boeing Company. Two of these aircraft have been delivered. The other four will be delivered by the end of 2016.

At 31st December 2015, the Cathay Pacific group had 70 new aircraft on order for delivery up to 2024. Cathay Pacific's first Airbus A350-900 aircraft is scheduled to be delivered in May 2016. 12 of these aircraft are scheduled to be delivered in 2016.

Cargo Services Load Factor and Yield



Fuel Price and Consumption



Fleet Profile*

	Number at 31st December 2015				Firm orders				Expiry of operating leases						
		Leased													
Aircraft type	Owned	Finance	Operating	**Total**	'16	'17	'18 and beyond	**Total**	'16	'17	'18	'19	'20	'21 and beyond	Options
Aircraft operated by Cathay Pacific															
A330-300	23	13	6	**42**							3	1	2		
A340-300	5	2		**7**[a]											
A350-900					12[b]	10		**22**							
A350-1000							26	**26**							
747-400	3			**3**											
747-400F	4			**4**[c]											
747-400BCF			1[d]	**1**							1				
747-400ERF		6		**6**											
747-8F	2	11		**13**	1[c]			**1**							
777-200	5			**5**											
777-200F															5[e]
777-300	11	1		**12**											
777-300ER	19	11	23	**53**						2	2			19	
777-9X							21[c]	**21**							
Total	72	44	30	**146**	13	10	47	**70**		2	6	1	2	19	5
Aircraft operated by Dragonair															
A320-200	5		10	**15**							2	1	1	6	
A321-200	2		6	**8**									1	5	
A330-300	10		9[f]	**19**					3	4		2			
Total	17		25	**42**					3	4	2	3	2	11	
Aircraft operated by Air Hong Kong															
A300-600F	2	6	2	**10**							2				
747-400BCF			3[f]	**3**					1	2					
Total	2	6	5	**13**					1	2	2				
Grand total	**91**	**50**	**60**[f]	**201**	**13**	**10**	**47**	**70**	**4**	**8**	**10**	**4**	**4**	**30**	**5**

* Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2015.

(a) One Airbus A340-300 was sold in February 2016.
(b) Including two aircraft on 12-year operating leases.
(c) 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. Three Boeing 777-300ER aircraft have been delivered to Cathay Pacific, one in April 2015, one in July 2015 and the third in September 2015. Two of the Boeing 747-400F freighters have been delivered to The Boeing Company, one in November 2014, the other in July 2015. Of the remaining four, one was parked in January 2014.
(d) The aircraft was parked in August 2013 and returned to service in September 2015.
(e) Purchase options in respect of five Boeing 777-200F freighters.
(f) Of the total 60 operating lease aircraft, 55 are leased from external parties and five are under leasing arrangement within the group (three Boeing 747-400BCFs and two Airbus A330-300s).

Sustainable Development

Greenhouse gas emissions per unit of capacity (measured in available tonne kilometres) decreased by 1% in 2015. The reduction reflects the introduction of more fuel efficient aircraft and the retirement of less fuel efficient aircraft.

The lost time injury rate fell by 25% in 2015, 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 arrear. Consequently, the 2015 results include Air China's results for the 12 months ended 30th September 2015, adjusted for any significant events or transactions for the period from 1st October 2015 to 31st December 2015.

In the year ended 30th September 2015, Air China's results improved, principally as a result of low fuel prices and strong passenger demand, which more than offset the effect of foreign exchange losses caused by the depreciation of the Renminbi. The group recorded a significantly higher profit from Air China in 2015.

Air China Cargo

Air China Cargo's 2015 financial results were in line with those of 2014. The adverse effects of exchange losses on retranslation of US dollar loans and lower yield in the highly competitive air cargo market were offset by savings from low fuel prices.

OUTLOOK

The operating environment was better in 2015 than in 2014, but some significant challenges were faced, which are expected to continue in 2016. Strong competition from other airlines in the region, foreign currency movements and weak premium class passenger demand will put pressure on passenger yield. Cargo demand will be adversely affected by industry overcapacity. Overall passenger demand remains strong and the airlines expect to continue to benefit from low fuel prices. Cathay Pacific's subsidiaries and associates are expected to perform well.

The Cathay Pacific group is confident of longer term success, and will continue to help passengers to travel well. Dragonair is being rebranded as Cathay Dragon, as part of an effort to create a more consistent travel experience between the two airlines. Investments will continue in aircraft, in products and in the development of the network. The financial position is strong. Supported by its world-class team, Cathay Pacific remains deeply committed to strengthening the aviation hub in Hong Kong, the home city of Cathay Pacific for the past 70 years.

Ivan Chu

HONG KONG AIRCRAFT ENGINEERING COMPANY ("HAECO") GROUP

Financial Highlights

	2015 HK$M	2014 HK$M
Revenue		
HAECO Hong Kong	3,628	3,178
HAECO Americas	2,554	2,885
HAECO Xiamen	1,712	1,924
TEXL	3,719	3,538
Others	482	402
Net operating profit	339	439
Profit attributable to the Company's shareholders		
HAECO Hong Kong	167	103
HAECO Americas	(158)	(45)
HAECO Xiamen	69	89
TEXL	149	166
Share of profit/(loss) of:		
HAESL and SAESL	194	267
Other subsidiary and joint venture companies	43	(7)
Total	464	573
Swire Pacific share	349	430

Operating Highlights

		2015	2014
Airframe services manhours sold			
HAECO Hong Kong	Million	2.80	2.46
HAECO Americas	Million	3.02	3.66
HAECO Xiamen	Million	3.46	3.55
Line services movements handled			
HAECO Hong Kong	Average per day	303	328
Engines overhauled			
TEXL		89	71
HAESL		115	147

Sustainable Development Highlights

	2015	2014
LTIR	1.40	1.57
Energy intensity (kWh per manhour)	3.81	3.61

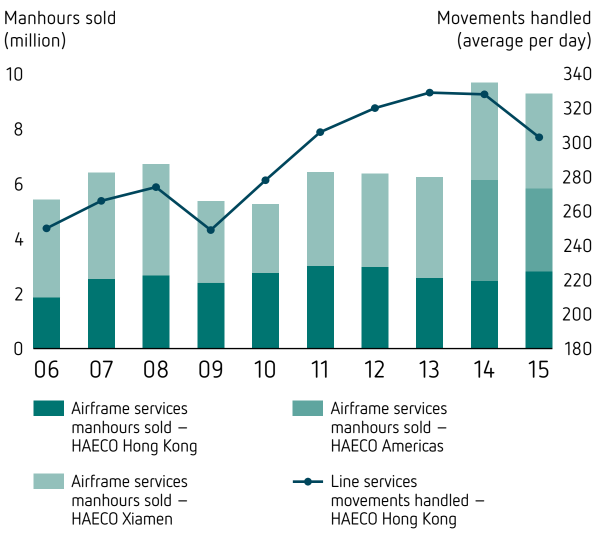
Note: Energy intensity measures the electricity consumption for every manhour at the group's principal operations.

The HAECO group was one of the first independent maintenance, repair and overhaul service providers to perform airframe maintenance and line services checks on Boeing 787 Dreamliner aircraft.

AVIATION MAINTENANCE AND REPAIR INDUSTRY BACKGROUND

Orders for new aircraft are firm. Aircraft manufacturers have record order books and are increasing production. More aircraft means in principle more demand for their maintenance, repair and overhaul ("MRO"). But new aircraft need less MRO than older aircraft. On balance, MRO demand is still expected to grow in the medium and longer term.

HAECO Group – Key Operating Highlights



2015 RESULTS SUMMARY

The HAECO group's profit attributable to shareholders in 2015 on a 100% basis was HK$464 million, a decrease of 19% compared to the corresponding figure in 2014 of HK$573 million. The decrease principally reflects weaker results at HAECO Americas, HAECO Xiamen, HAESL and SAESL, partially offset by better results from HAECO Hong Kong and HAECO ITM.

A total of 9.28 million airframe services manhours were sold by HAECO Hong Kong, HAECO Americas and HAECO Xiamen in 2015, 4% fewer than in 2014. The most significant decline, which had a consequential adverse impact on the results of the group, was at HAECO Americas.

HAECO Hong Kong

HAECO Hong Kong recorded a 62% increase in attributable profit in 2015 to HK$167 million.

Manhours sold for airframe services increased from 2.46 million in 2014 to 2.80 million in 2015. This reflected strong demand and an increase in staff numbers.

The average number of aircraft movements handled decreased in 2015 by 8% to 303 per day. But line services manhours sold increased because more work was done per movement.

Manhours sold in 2015 for component and avionics work (together with those sold by HAECO Component Overhaul (Xiamen)) were 0.20 million, a decrease of 12% compared to 2014. The decrease reflected the retirement of Boeing 747-400 aircraft.

HAECO Americas

HAECO Americas recorded a loss of HK$158 million in 2015 compared to a loss of HK$45 million for the 11 month post-acquisition period in 2014. The increased loss principally reflected a decline in airframe services manhours sold.

Demand for HAECO Americas' airframe services fell to 3.02 million manhours in 2015 from 3.66 million in the post-acquisition period in 2014. The decrease principally reflected completion of large, high work scope contracts and their replacement with lower work scope contracts.

In 2015, HAECO Americas worked on 40 cabin integration programmes compared with 44 in the post-acquisition period in 2014, but this was partly compensated for by more Panasonic global communication suite kit work. HAECO Americas shipped approximately 4,200 premium economy and economy class seats compared with 8,600 in the post-acquisition period in 2014. Demand for HAECO Americas' old seats declined and its new seats were not in commercial production.

HAECO Xiamen

HAECO Xiamen recorded a 22% decrease in attributable profit in 2015 to HK$69 million. There was less demand for airframe services, particularly for heavy maintenance work. Fewer airframe services manhours were sold in 2015 (3.46 million compared with 3.55 million in 2014) and there was very little private jet work.

TEXL

In 2015, TEXL completed 59 quick turn repairs on GE90 aircraft engines (56 of them being heavy or medium repairs) and 30 performance restorations on such engines, compared to 34 quick turn repairs and 37 performance restorations in 2014. Its after tax profit fell as it no longer had tax losses to utilise.

HAESL and SAESL

HAESL recorded a 26% decrease in profit in 2015. Fewer engines were overhauled. This reflected the retirement of aircraft operating Trent 500 engines and a reduction in the frequency of scheduled maintenance of Trent 700 engines. Engine output was 115 in 2015 compared with 147 in 2014.

SAESL recorded a 32% decrease in profit in 2015.

In November 2015, conditional agreements were entered into for the restructuring of shareholdings in HAESL and SAESL. As part of the restructuring (and subject to satisfaction of the conditions to which the agreements are subject), HAESL will sell its 20% shareholding in SAESL. This sale is expected to result in a gain to HAESL. The amount of the gain will depend on (inter alia) when the agreements are completed. For illustrative purposes only, if (which is not certain) the agreements are completed by the end of April 2016, the gain to HAESL is expected to be approximately US$229 million). 45% of the gain to HAESL (equivalent to approximately HK$804 million if the agreements are completed by the end of April 2016) is expected to be reported as a profit by HAECO. As part of the restructuring, HAECO agreed to increase its shareholding in HAESL from 45% to 50%. On completion of the restructuring, HAESL will be owned 50% by HAECO and 50% by Rolls-Royce and HAESL will no longer be interested in SAESL.

Other Principal Subsidiary and Joint Venture Companies

HAECO ITM provided inventory technical management services for 259 aircraft in 2015, compared with 257 in 2014. Profits increased in 2015. This reflected a higher utilisation of rotable parts as operations increased.

The losses of HAECO Landing Gear Services were slightly less than in 2014. It did more work in 2015 than in 2014, but better operating results were largely offset by unrealised foreign exchange losses on loans.

Sustainable Development

The HAECO group's lost time injury rate decreased by 11% between 2014 and 2015, reflecting improvements in most group companies.

The group's energy intensity increased by 6% between 2014 and 2015 mainly as a result of more electricity consumption in Hong Kong and Mainland China.

OUTLOOK

The prospects for the HAECO group's different businesses in 2016 are mixed.

HAECO Hong Kong's airframe and line services capacity are expected to grow in 2016, with more staff being hired. Training them will increase costs in the short term. Further growth in capacity will be constrained by lack of hangar space. Demand for line services in Hong Kong in 2016 is expected to remain strong.

Demand for HAECO Americas' airframe services is expected to be similar to that in 2015. Results are expected to benefit from more efficient performance of contracts entered into in 2015. HAECO Americas will start to deliver its new Vector seats this year. The cabin integration order book is strong.

HAECO Xiamen expects to do less airframe services work in 2016 than in 2015.

Demand for TEXL's overhaul services is expected to remain firm in 2016.

HAESL is expected to do less work per engine in 2016.

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. This is subject to the National Development and Reform Commission's approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO group in Xiamen.

Augustus Tang