

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.



A Cathay Pacific Airbus A350-900.

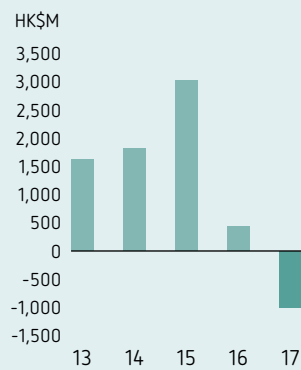




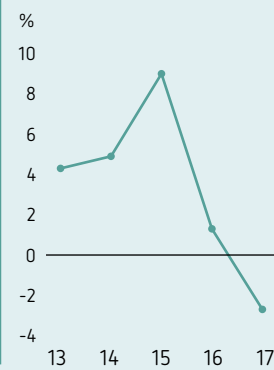
AVIATION DIVISION

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

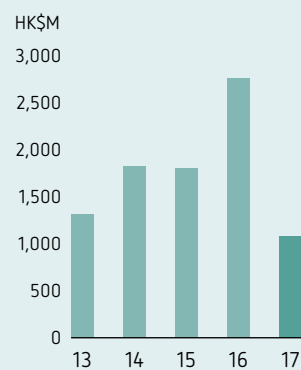
Profit Attributable to the Company's Shareholders



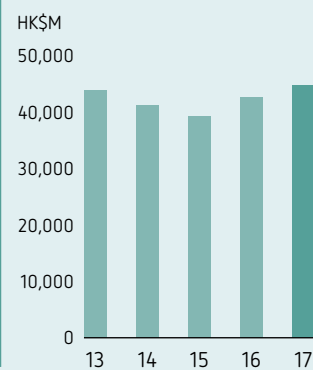
Return on Equity



Net Cash Generated from Operating Activities



Net Assets Employed



The Cathay Pacific group

The Cathay Pacific group includes Cathay Pacific, its wholly-owned subsidiary Hong Kong Dragon Airlines Limited (“Cathay Dragon”), 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 also 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 52 countries and territories. At 31st December 2017, it operated 149 aircraft and had 47 new aircraft due for delivery up to 2024.

Cathay Dragon is a regional airline registered and based in Hong Kong and offers scheduled services to 51 destinations in Mainland China and elsewhere in Asia. At 31st December 2017, it operated 47 aircraft and had 32 new aircraft due for delivery up to 2024.

Cathay Pacific owns 18.13% 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 2017, Air China operated 303 domestic and 117 international, including regional, routes. Cathay Pacific has a cargo joint venture with Air China, Air China Cargo, which operated 15 freighters at

31st December 2017 and also 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 2017, Air Hong Kong operated 12 freighters.

Cathay Pacific and its subsidiaries employ more than 32,700 people worldwide (around 25,600 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 50% joint venture company Hong Kong Aero Engine Services Limited (“HAESL”), 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.

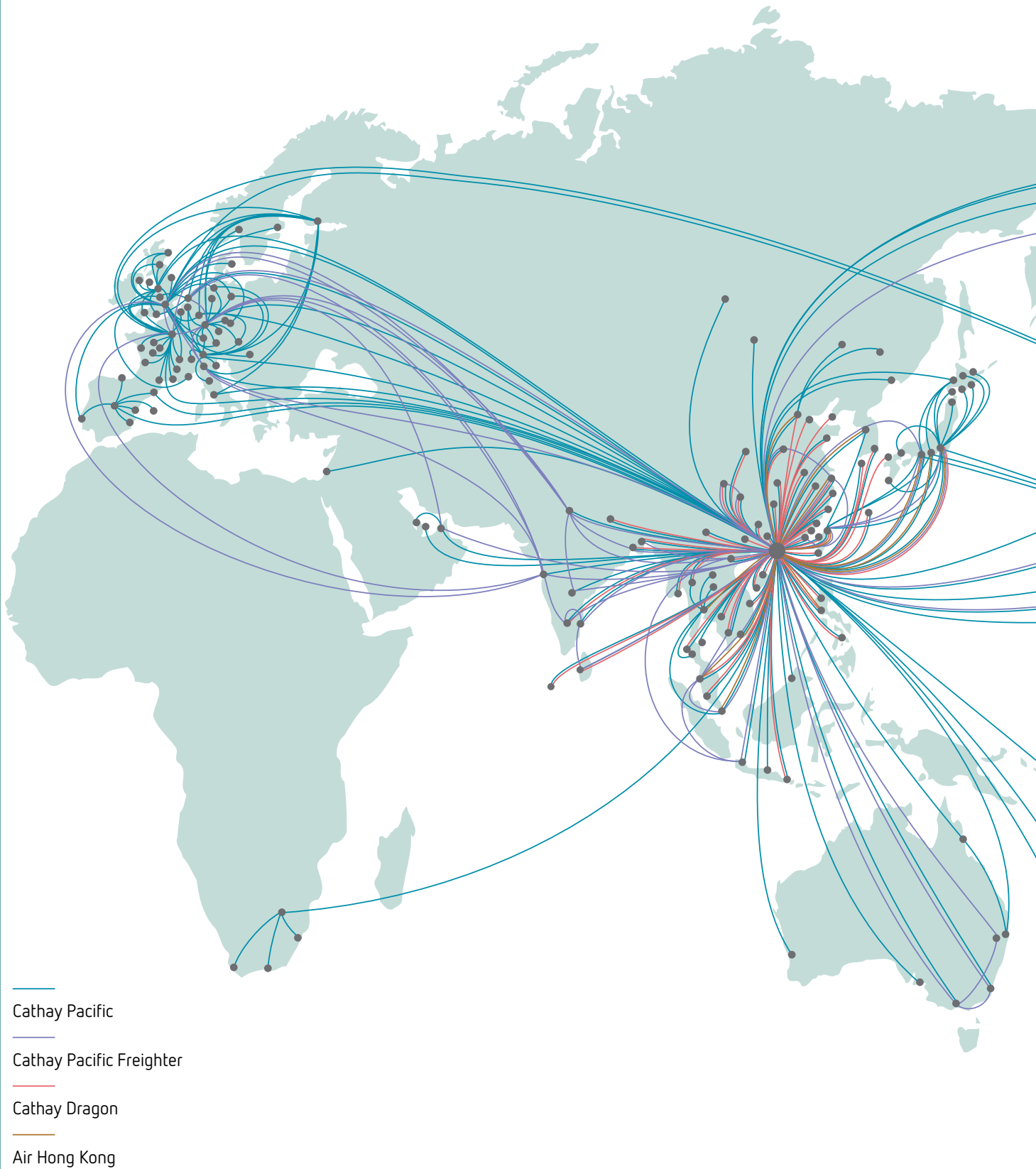
HAECO is listed on The Stock Exchange of Hong Kong Limited.

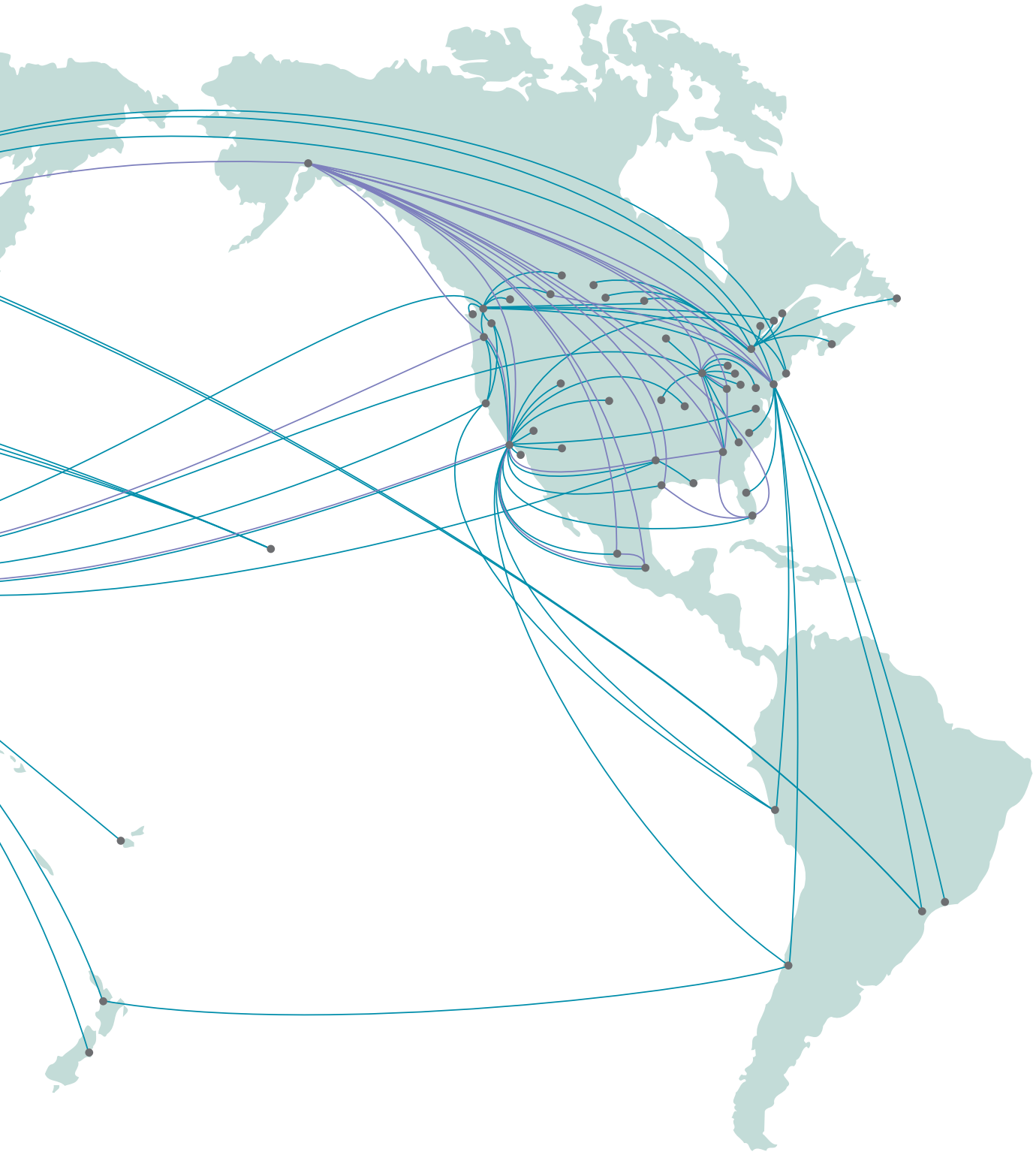
STRATEGY

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 Cathay Dragon) and aircraft engineering (HAECO) brands.
- Developing the fleets of Cathay Pacific and Cathay Dragon (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





2017 PERFORMANCE

Financial Highlights

	2017 HK\$M	2016 HK\$M
HAECO group		
Revenue	14,546	13,760
Operating (loss)/profit	(90)	127
Attributable (loss)/profit	(406)	731
Cathay Pacific group		
Share of post-tax losses from associated companies	(567)	(259)
Attributable (loss)/profit	(1,002)	441

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 199 and 200. The figures above do not include consolidation adjustments.

CATHAY PACIFIC GROUP

Cathay Pacific and Cathay Dragon – 2017 Performance

		2017	2016	Change
Available tonne kilometres ("ATK")	Million	31,439	30,462	+3.2%
Available seat kilometres ("ASK")	Million	150,138	146,086	+2.8%
Passenger revenue	HK\$M	66,408	66,926	-0.8%
Revenue passenger kilometres ("RPK")	Million	126,663	123,478	+2.6%
Revenue passengers carried	'000	34,820	34,323	+1.4%
Passenger load factor	%	84.4	84.5	-0.1%pt
Passenger yield	HK¢	52.3	54.1	-3.3%
Cargo revenue – group	HK\$M	23,903	20,063	+19.1%
Cargo revenue – Cathay Pacific and Cathay Dragon	HK\$M	20,553	17,024	+20.7%
Cargo and mail carried	Tonnes '000	2,056	1,854	+10.9%
Cargo and mail load factor	%	67.8	64.4	+3.4%pt
Cargo and mail yield	HK\$	1.77	1.59	+11.3%
Cost per ATK (with fuel)	HK\$	3.12	3.02	+3.3%
Cost per ATK (without fuel)	HK\$	2.14	2.12	+0.9%
Aircraft utilisation	Hours per day	12.3	12.2	+0.8%
On-time performance	%	71.2	72.1	-0.9%pt
Average age of fleet	Years	9.3	9.1	+2.2%
Fuel consumption – group	Barrels (million)	45.1	43.9	+2.7%

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The Cathay Pacific team takes great pride in delivering service that rises above customers' expectations.



2017 AIRLINE INDUSTRY REVIEW

Fundamental structural changes within the airline industry continued to affect the operating environment for the airline business and created difficult operating conditions in 2017. The factors which affected Cathay Pacific's performance were largely the same as in 2016. Overcapacity in passenger markets led to intense competition with other airlines and continued pressure on yields on many key routes. Fuel prices were higher, but fuel hedging losses reduced. As the year progressed, positive results began to be seen from Cathay Pacific's transformation programme and the group benefited from a strong cargo business, a weaker US dollar and improved premium class passenger demand.

2017 RESULTS SUMMARY

The Cathay Pacific group's attributable loss on a 100% basis was HK\$1,259 million in 2017, compared with a loss of HK\$575 million in 2016. The airlines' loss after tax was HK\$4,303 million (2016: loss of HK\$3,363 million), and the share of profits from subsidiaries and associates was HK\$3,044 million (2016: HK\$2,788 million).

Several special factors affected the results in 2017. In March, the European Commission issued a decision finding that a number of international air cargo carriers, including Cathay Pacific, had agreed to cargo surcharge levels prior to 2007 and that such agreements infringed European competition law and imposed a fine of Euros 57.12 million (equivalent to approximately HK\$498 million) on Cathay Pacific. An application has been made to annul the decision. In the same month, Air China completed an

issue of A shares and, as a result, Cathay Pacific's shareholding was diluted. A gain of HK\$244 million was recognised on the deemed partial disposal. In April, Cathay Pacific disposed of its interest in TravelSky Technology Limited at a profit of HK\$586 million.

In the first half of 2017, Cathay Pacific commenced a three-year corporate transformation programme, which is intended to address the fundamental competitive challenges which it is facing in the current airline industry environment. The programme has the goal of making the airlines more consumer focused and responsive and in doing so increasing revenue and containing costs. In 2017, Cathay Pacific reorganised its head office and focused on containing costs and improving efficiencies. It appointed new management and leadership teams. The associated redundancy costs (of HK\$224 million) were recognised in 2017 staff expenses. Evidence of progress became apparent in the second half of the year. Airline losses in the second half of 2017 were lower than those in each of the two preceding half years.

In November 2017, Air Hong Kong agreed to enter into sale and leaseback transactions with DHL International in respect of eight Airbus A300-600F freighters and associated equipment. Five of these transactions were completed in 2017. The other three will be completed in 2018. At the end of 2018, Cathay Pacific will acquire from DHL International the 40% shareholding in Air Hong Kong that it does not already own, with the result that Air Hong Kong will become a wholly owned subsidiary of Cathay Pacific. At the same time, a new 15-year block space agreement with DHL International will commence.



Cathay Pacific's new lounge at Singapore Changi Airport is one of the airline's largest lounges outside Hong Kong.

Passenger Services

Passenger revenue in 2017 was HK\$66,408 million, a decrease of 1% compared to 2016. 34.8 million passengers were carried, an increase of 1% compared to the previous year.

Capacity increased by 3%, reflecting the introduction of new routes and increased frequencies on other routes. The load factor decreased marginally, to 84.4%. Yield, which was under pressure for most of the year, decreased by 3%, to HK52.3 cents.

The operating environment for the passenger business continued to be difficult in 2017, with a number of factors adversely affecting its performance. Competition was intense as other airlines increased capacity, with more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Economy class demand on North American, Southwest Pacific and Korean routes was weak. Premium class demand was strong, which compensated somewhat for the reduction in economy class yield.

Cargo Services

Cathay Pacific and Cathay Dragon

Cathay Pacific and Cathay Dragon's cargo revenue in 2017 was HK\$20,553 million, an increase of 21% compared to 2016. The tonnage carried in 2017 increased by 11% (to 2.1 million tonnes)

compared to 2016. The market was robust throughout the year. There was strong demand for exports from Mainland China, and shipments on South Asian, Middle Eastern, African and intra-Asian routes grew.

The cargo capacity of Cathay Pacific and Cathay Dragon increased by 4% in 2017. The cargo load factor increased by 3.4 percentage points to 67.8%. Cargo yield increased by 11% to HK\$1.77, reflecting the resumption (from April) of the collection of fuel surcharges in Hong Kong and strong demand.

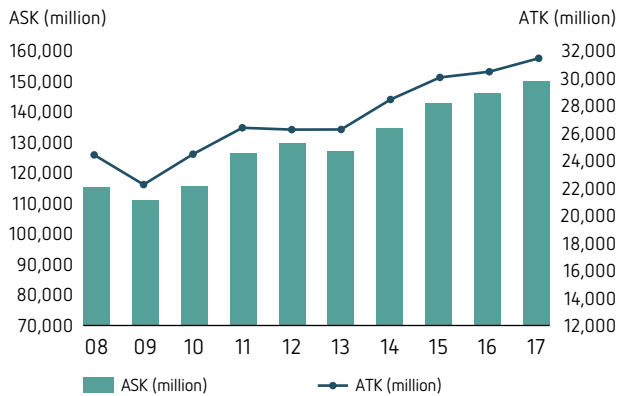
Air Hong Kong

Air Hong Kong achieved an increase in profit for 2017 compared with 2016. Capacity (in terms of available tonne kilometres) decreased by 2% to 762 million. The load factor increased by 1.6 percentage points to 66.9%.

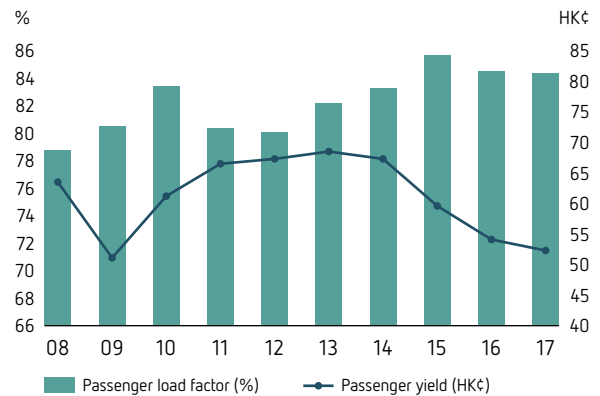
Operating Costs

Total fuel costs for the Cathay Pacific group (before the effect of fuel hedging) increased by HK\$5,238 million (or 27%) compared with 2016. There was a 23% increase in average fuel prices and a 3% increase in consumption. Fuel is still the Cathay Pacific group's most significant cost, accounting for 31% of total operating costs in 2017 (compared to 30% in 2016). Fuel hedging losses were reduced. After taking hedging losses into account, fuel costs increased by HK\$3,159 million (or 11%) compared to 2016.

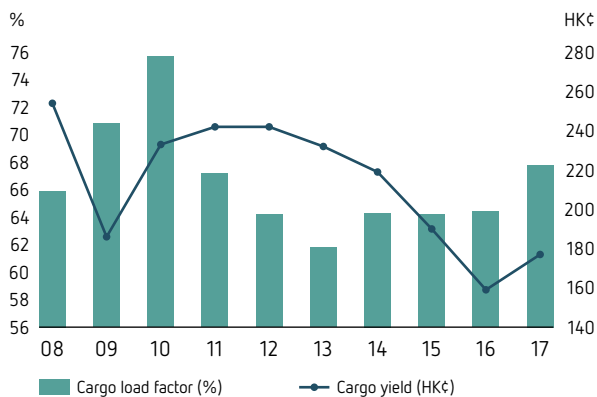
Capacity – Available Seat Kilometres and Available Tonne Kilometres



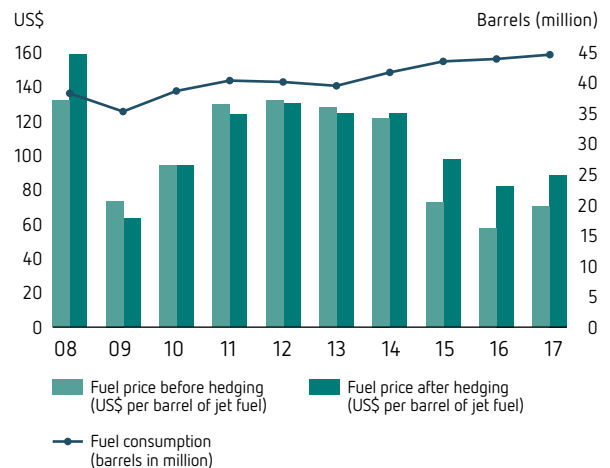
Passenger Services Load Factor and Yield



Cargo Services Load Factor and Yield



Fuel Price and Consumption



There was a 1% increase in non-fuel costs per available tonne kilometre. Disregarding exceptional items, non-fuel costs per available tonne kilometre were unchanged.

Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region continued to impose costs on Cathay Pacific. The airlines are doing more to improve the reliability of their operations.

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.

Fleet Profile

At 31st December 2017, the total number of aircraft in the Cathay Pacific and Cathay Dragon fleets was 196, an increase of seven since 31st December 2016.

In 2017, Cathay Pacific took delivery of 12 Airbus A350-900 aircraft, bringing the total number of aircraft of this type to 22 at the end of the year.

Cathay Pacific will start to take delivery of Airbus A350-1000 aircraft (which have a longer range and more capacity than Airbus A350-900 aircraft) in 2018 and expects to have 20 aircraft of this type in service by the end of 2021.

At 31st December 2017, the Cathay Pacific group had 79 new aircraft on order for delivery up to 2024. This includes an order for 32 Airbus A321-200neo aircraft. These aircraft are intended to replace and increase Cathay Dragon's existing narrow-body fleet.

Cathay Pacific's remaining four Airbus A340-300 passenger aircraft were retired in 2017, as were two Boeing 747-400BCF converted freighters. Two Boeing 747-8F freighters were wet-leased from Atlas Air Worldwide to increase cargo capacity.

Fleet profile*

Aircraft type	Number at 31st December 2017			Total	Firm orders			Total	Expiry of operating leases					
	Owned	Leased Finance	Operating		'18	'19	'20 and beyond		'18	'19	'20	'21	'22	'23
Aircraft operated by Cathay Pacific:														
A330-300	20	11	6	37					3 ^(a)	1	2			
A350-900	16	4	2	22		2	4	6 ^(b)						2
A350-1000					8	4	8	20 ^(b)						
747-400ERF		6		6										
747-8F	3	11		14										
777-200	5			5										
777-300	12			12	2	3		5 ^(c)						
777-300ER	19	11	23	53					1	2		5	4	2
777-9X							21	21						
Total	75	43	31	149	10	9	33	52	4	3	2	5	4	2
Aircraft operated by Cathay Dragon:														
A320-200	5		10	15						1	3	3	3	
A321-200	2		6	8							1	2	2	1
A321-200neo							32	32 ^(b)						
A330-300	10		14 ^(d)	24					2	3	2	2	4	1
Total	17		30	47			32	32	2	4	6	7	9	1
Aircraft operated by Air Hong Kong:														
A300-600F	2	1	7	10					7					
747-400BCF			2 ^(d)	2					2					
Total	2	1	9	12					9					
Grand total	94	44	70^(d)	208	10	9	65	84	15	7	8	12	13	3

* The table does not reflect aircraft movements after 31st December 2017.

(a) The operating lease of one Airbus A330-300 expired in January 2018 and the aircraft left the fleet in February 2018.

(b) In September 2017, Cathay Pacific agreed with Airbus to purchase 32 new Airbus A321-200neo aircraft (for delivery after 2020) and to convert an existing order for six Airbus A350-1000 aircraft into an order for six smaller Airbus A350-900 aircraft (to be delivered in 2019 and 2020) and to defer the delivery of five Airbus A350-1000 aircraft from 2020 to 2021.

(c) Five Boeing 777-300 used aircraft will be delivered from 2018.

(d) 62 of the 70 aircraft which are subject to operating leases are leased from third parties. The remaining eight of such aircraft (one Boeing 747-400BCFs and seven Airbus A330-300s) are leased within the Cathay Pacific group.

The Cathay Pacific group has ordered 32 Airbus A321neo aircraft for Cathay Dragon in order to modernise and expand its fleet.



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 2017 results include Air China's results for the 12 months ended 30th September 2017, adjusted for any significant events or transactions for the period from 1st October 2017 to 31st December 2017.

For the 12 months ended 30th September 2017, Air China's underlying results improved compared to the 12 months ended 30th September 2016.

In 2015, Air China proposed an issue of A shares. In March 2017, the procedures for Air China's registration of the new A shares were completed. As a consequence, Cathay Pacific's shareholding in Air China was diluted from 20.13% to 18.13%.

Air China Cargo

Air China Cargo's 2017 financial results were better than those of 2016. The cargo market improved. Higher operating costs due to increased fuel prices were more than offset by a significant improvement in yield and unrealised exchange gains on loans denominated in US dollars.

OUTLOOK

The priorities for Cathay Pacific in 2018 are its transformation programme and changing the way that it works so as to better contain costs, which will strengthen its passenger business further. Cathay Pacific is confident of a successful outcome

from these efforts. It also looks to benefit from a slowing of the decline in passenger yields as global economic conditions improve. The outlook for its cargo business is positive and it will take best advantage of opportunities in the growing global cargo market. Increased fuel costs are increasing operating costs and adversely affecting results. Fuel hedging losses are declining.

Cathay Pacific is improving its competitive position by expanding its route network, increasing frequencies on its most popular routes and buying more fuel-efficient aircraft. The airlines are increasing productivity and reducing costs, but are at the same time improving their already high customer service standards. The Cathay Pacific group is proud of the quality, dedication and professionalism of its people. Difficult but necessary decisions have been made. The group is acting decisively to make Cathay Pacific and Cathay Dragon better airlines and stronger businesses.

The commitment to Hong Kong and its people remains unwavering, as has been the case over the past 71 years. Cathay Pacific will continue to make strategic investments to develop and strengthen Hong Kong's position as Asia's largest international aviation hub.

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Rupert Hogg

HONG KONG AIRCRAFT ENGINEERING COMPANY (“HAECO”) GROUP

Financial Highlights

	2017 HK\$M	2016 HK\$M
Revenue		
HAECO Hong Kong	4,041	3,879
HAECO Americas	2,625	2,836
HAECO Xiamen	2,041	1,640
TEXL	5,162	4,808
Others	677	597
Net operating (loss)/profit	(209)	38
Attributable profit/(loss)		
HAECO Hong Kong	257	194
HAECO Americas	(602)	(238)
HAECO Xiamen	135	94
TEXL	209	196
Share of profits of:		
HAESL and SAESL	244	218
Other subsidiary and joint venture companies	97	52
Attributable profit (excluding gain on disposal of HAESL’s interest in SAESL, impairment charges and write-off of net deferred tax assets)	340	516
Gain on disposal of HAESL’s interest in SAESL	–	783
Impairment charges in respect of:		
Goodwill	(625)*	(285)*
Plant, machinery and tools	(7)*	(39)
Write-off of net deferred tax assets	(249)*	–
Attributable (loss)/profit	(541)	975
Swire Pacific share of attributable (loss)/profit	(406)	731

* representing impairment charges and write-off relating to HAECO Americas

Operating Highlights

		2017	2016
Airframe services manhours sold			
HAECO Hong Kong	Million	2.70	2.67
HAECO Americas	Million	2.80	3.24
HAECO Xiamen	Million	3.76	3.21
Line services movements handled			
HAECO Hong Kong	Average per day	320	307
Engines overhauled			
TEXL		85	90
HAESL		140	114

The HAECO group continues to increase the range, depth and quality of aircraft engineering services offered to its customers.



2017 AVIATION MAINTENANCE AND REPAIR INDUSTRY REVIEW

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 and repair. But new aircraft need less maintenance and repair than older aircraft and original equipment manufacturers are doing more maintenance and repair than they used to. On balance, maintenance and repair demand is still expected to grow in the medium and longer term.

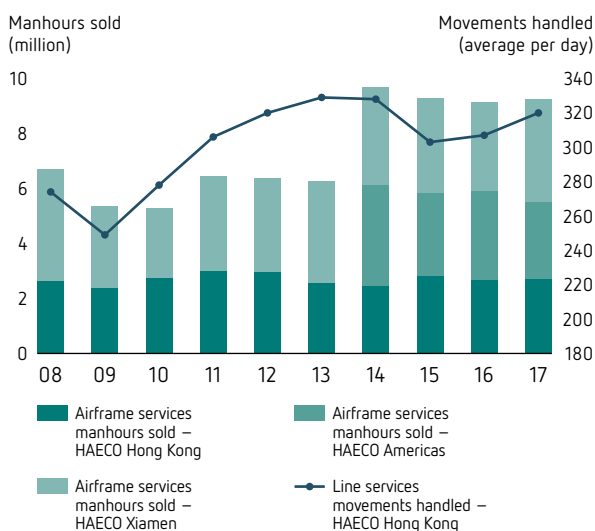
2017 RESULTS SUMMARY

In 2017, most HAECO businesses did well but the businesses in America continued to incur losses. The HAECO group overall reported an attributable loss of HK\$541 million in 2017 on a 100% basis. This loss included an impairment charge of HK\$625 million in respect of the goodwill attributable to HAECO USA Holdings, Inc. ("HAECO Americas") and a write-off of HK\$249 million in respect of HAECO Americas' net deferred tax assets. This compares with a profit of HK\$975 million in 2016, which included a gain of HK\$805 million (before associated expenses) on disposal of the interest of Hong Kong Aero Engine Services Limited ("HAESL") in Singapore Aero Engine Services Pte. Limited ("SAESL") and an impairment charge of HK\$285 million in respect of the goodwill attributable to HAECO Americas.

Disregarding the impairment charges in both years, the net deferred tax write-off in 2017 and the gain on disposal in 2016, the HAECO group's 2017 attributable profit was HK\$340 million, 34% lower than in 2016. A higher loss at HAECO Americas more than offset the benefits of more engine repair work at HAESL and TEXL, and better results at HAECO Hong Kong and HAECO Xiamen.

A total of 9.26 million airframe services manhours were sold by HAECO Hong Kong, HAECO Americas and HAECO Xiamen in 2017, 0.14 million more than in 2016. More airframe services work was performed in Hong Kong and Xiamen in 2017. Less work was performed in America, principally due to the loss of significant work from a major customer.

HAECO group – Key Operating Highlights



HAECO Hong Kong

Disregarding the profit on the disposal of an interest in SAESL in 2016, HAECO Hong Kong recorded a 33% increase in profit in 2017. This mainly reflected more airframe and line services work.

Manhours sold for airframe services increased from 2.67 million in 2016 to 2.70 million in 2017, reflecting deferral of some customers' work from 2016. 78% of the work was for airlines based outside Hong Kong.

The average number of aircraft movements handled increased in 2017 by 4% to 320 per day. Line services manhours sold increased, reflecting this increase in volume.

Manhours sold in 2017 for component and avionics work (together with those sold by HAECO Component Overhaul (Xiamen)) were 0.215 million, an increase of 4% compared to 2016. The increase reflected additional component maintenance capabilities.

HAECO Americas

HAECO Americas recorded a loss of HK\$1,483 million in 2017 (including an impairment charge of HK\$625 million in respect of goodwill and the write-off of net deferred tax assets of HK\$249 million). Excluding the impairment charges in both years and the write-off of net deferred tax assets in 2017, HAECO Americas' 2017 loss was HK\$602 million, compared to a loss of HK\$238 million in 2016.

The higher loss reflected less airframe services, reconfiguration services and Panasonic communication equipment work. The results were also adversely affected (by comparison with 2016) by the non-recognition of deferred tax assets in respect of 2017 tax losses.

Demand for HAECO Americas' airframe services decreased. 2.80 million manhours were sold in 2017 compared with 3.24 million in 2016, reflecting the loss of significant work from a major customer from August 2017 and the completion of some large aircraft and cabin modification programmes in 2016. Results were also adversely affected by the additional costs of training and recruiting staff in preparation for the opening of a fifth hangar at Greensboro in 2018.

Revenue from cabins and seats increased in 2017. More seats were sold (approximately 7,300 premium and economy seats compared with 3,400 in 2016), but there were fewer interior reconfigurations and fewer Panasonic communication equipment installation kits were delivered. Overall, cabin and seats work was loss making, with losses being made on some seat contracts.

As required by applicable accounting standards, a review of the carrying value of the business of HAECO Americas was undertaken. As a result of this review (which took into account the prospects for the airframe maintenance business of HAECO Americas), an impairment charge of HK\$625 million was made in 2017 in respect of the goodwill recorded.

The write-off of net deferred tax assets in 2017 resulted from a review of the ability to set past tax losses in the USA off against future profits in the USA in the light of the certainty as to timing required by applicable accounting standards.

HAECO Xiamen

HAECO Xiamen recorded a 44% increase in attributable profit compared with 2016, to HK\$135 million.

Manhours sold for airframe services in 2017 were 3.76 million, representing 17% growth in volume and reflecting higher demand, which generated a 22% increase in revenue.

An average of 54 aircraft movements were handled per day in 2017, 8% more than in 2016. Revenue increased by 15%.

Revenue from private jet work recorded an increase of 160% in 2017. A Boeing 747-400 VVIP cabin modification project, which commenced in the second half of 2017, is scheduled to be completed in March 2018.

TEXL

Profit increased by 7% at TEXL to HK\$209 million.

In 2017, TEXL completed 52 engine performance restorations and 33 quick turn repairs on GE90 aircraft engines (compared with 48 engine performance restorations and 42 quick turn repairs in 2016). With more engine performance restorations, compressor module repair work and component repair work, TEXL recorded a higher profit in 2017 than in 2016.

HAESL

HAESL recorded an 12% increase in profit (on a 100% basis) in 2017 compared to 2016 (disregarding in 2016 the profit on disposal of its interest in SAESL). The increase in profit principally reflected an increase in volume. 140 engines were overhauled in 2017, compared with 114 in 2016. HAESL invested heavily during 2017 in new facilities and tooling and recruited more people, in order to accommodate new engines types and expected volume growth.

Other Principal Subsidiary and Joint Venture Companies

HAECO ITM provided inventory technical management services for 272 aircraft in 2017, similar to the number in 2016. The profit of HAECO ITM increased in 2017. More aircraft parts were loaned and there was more repair business.

Taikoo (Xiamen) Landing Gear Services Company Limited did more work in 2017 than in 2016. Its losses were reduced accordingly. Its 2016 losses included an impairment charge in respect of plant, machinery and tools.

OUTLOOK

The prospects for the HAECO group's different businesses in 2018 are satisfactory. More engines are expected to be repaired and overhauled. The component and avionics overhaul business is expected to improve gradually, with the development of new capabilities. Demand for line services is expected to be firm. Demand for airframe services is expected to be roughly similar to that of 2017, with little change in Hong Kong and Xiamen, and an increase in America. The number and mix of seats sold are expected to be similar to those in 2017. Forward bookings for cabin integration work are low. Significantly less Panasonic communication equipment work is expected.

Airframe services results will depend on the outcome of efforts to improve efficiency and work flow in America. We expect to realise some of the benefits of this work in 2018.

The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government 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