

HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 44)

Continuing Connected Transactions

Independent financial adviser to HAECO: Commerzbank AG

HAECO has entered into the TCP Contract and the LM Contract with AHK for AHK's Fleet. As AHK is a connected person of HAECO, the TCP Contract and the LM Contract and all the transactions contemplated thereunder constitute continuing connected transactions for HAECO under rule 14A.14 of the Listing Rules and are subject to the reporting and announcement requirements under rule 14A.45-47.

(i) The Total Care Package Contract ("the TCP Contract") dated 9th September 2004

Parties: (i) HAECO (ii) AHK

Particulars

Pursuant to the TCP Contract, HAECO will provide a total care package for AHK's Fleet. The service to be provided includes acquiring an inventory of rotatable and repairable spares for leasing to AHK and providing management, logistic support and maintenance to this inventory.

The term is for 96 months (i.e. 8 years) from 10th September 2004. AHK may extend this for a first term of 12 months and thereafter for a second term of 18 months. Payments will be made in cash by AHK to HAECO against invoice presented at the end of each month within 45 days for the leasing of the inventory, the logistics and administrative costs involved, and for maintenance based on the hours each aircraft is flown.

The Directors estimate that the maximum aggregate annual value (the "annual cap") of the TCP Contract will not exceed the amounts set out below:

For the year ending 31st December (HK\$ '000)								Up to 31st August (HK\$'000)
2004	2005	2006	2007	2008	2009	2010	2011	2012
4,800	17,000	18,300	22,200	33,700	33,700	33,700	33,700	22,500

The annual cap has been determined by reference to the prices agreed at an arms' length with AHK to be charged for the total care package and projections provided by AHK in respect of its fleet size, annual aircraft utilization, route network and other operating parameters.

Opinion of the independent financial adviser ("IFA")

Since the term of the TCP will be for 96 months, an IFA has been appointed to comment on the duration of the TCP Contract. The IFA has identified three other similar "total care" aircraft repair, maintenance or component contracts provided by other aircraft maintenance companies in the last three years involving provision of total care repair and maintenance services to other Asian based airline operators, which are considered to be of comparable reputation and expertise in the aeronautical engineering industry in Asia and noted that they have contract durations between five to ten years. The IFA also noted that the TCP Contract was awarded to HAECO as the result of a global tender launched by Cathay Pacific on behalf of AHK in September 2003 and that the duration of the TCP Contract, which was one of the offering terms which formed part of the global tender, was fixed for a period of eight years at the time of the global tender.

Given that the term of the TCP Contract (including the possible exercise of the extension option by AHK) is of normal business practice and is within the range of contract durations of other similar aircraft contracts in the industry; the IFA confirms it to be normal business practice for HAECO to enter into the TCP Contract and is in the interests of HAECO and its shareholders as a whole to enter into the TCP Contract for such duration.

(ii) The Line Maintenance Contract ("the LM Contract") dated 9th September 2004

Parties: (i) HAECO (ii) AHK

Particulars

Pursuant to the LM Contract, HAECO will provide line maintenance services for AHK's Fleet at Hong Kong International Airport. The services to be provided include routine maintenance check, non-routine maintenance, actions to address inbound technical issues, ad-hoc maintenance support, ramp services, material supplies, tooling supplies, aircraft release and certification, and aircraft on ground support.

The term is for five years from 12th September 2004. Payments will be made in cash by AHK to HAECO against invoice presented each month within 30 days for the services performed by HAECO during the previous month.

The terms of the LM Contract have been arrived at after negotiations at an arm's length on normal commercial terms.

The Directors estimate that the annual cap of the LM Contract will not exceed the amounts set out below:

For the year ending 31st December (HK\$ '000)					Up to 31st August (HK\$'000)
2004	2005	2006	2007	2008	2009
725	5,586	5,947	5,987	6,110	4,125

The annual cap has been determined by reference to the services charges agreed with AHK and the projections provided by AHK in respect of its fleet size and operating pattern regarding frequency of aircraft landing at Hong Kong International Airport.

Opinion of the IFA

Since the term of the LM Contract will be for five years, an IFA has been appointed to comment on the duration of the LM Contract. The IFA has noted that in year 2004, HAECO has entered into or renewed approximately eight line maintenance contracts with other airline operators, including the LM Contract and that the term of all existing line maintenance contracts range from two to five years.

Given that (i) HAECO will benefit in securing longer term line maintenance service contracts with airline operators, and (ii) the contract duration of the LM Contract is within the range of line maintenance contracts entered into between HAECO and other airline operators, the IFA considers that it is fair and reasonable and is in the interests of HAECO to enter into the LM Contract for a period of five years. In this connection, the IFA confirms it to be normal business practice for HAECO to enter into the LM Contract and is in the interests of HAECO and its shareholders as a whole to enter into the LM Contract for such duration.

Connection between the parties

AHK is a 60% owned subsidiary of Cathay Pacific which is a connected person of HAECO because of its 27.45% interest in HAECO. AHK is an associate of Cathay Pacific and a connected person of HAECO under the Listing Rules.

Compliance with Listing Rules

It is expected that the highest of the relevant percentage ratios as defined under Rule 14.07 of the Listing Rules (other than the profits ratio) in respect of the TPC Contract and the LM Contract will, on an annual basis, be more than 0.1% but less than 2.5%. The TCP Contract and the LM Contract are therefore subject to the reporting and announcement requirements under Rule 14A.45-47, but do not require the approval of HAECO's independent shareholders.

HAECO will comply with the continuing obligations under Rule 14A.37-41 and will re-comply with the relevant Listing Rules if the annual caps are exceeded or when the TCP Contract or the LM Contract is renewed or when there is a material change to their terms.

Opinion of the Directors

The Directors, including the independent non-executive Directors, consider that the terms of the TCP Contract and the LM Contract are fair and reasonable and in the interests of HAECO and its shareholders as a whole and have been negotiated on an arm's length basis in the usual and ordinary course of business, on normal commercial terms and on terms no more favourable to AHK than those which the Company would offer to parties which are not connected persons (as defined under the Listing Rules) of HAECO.

Reasons for, and benefits of, the TCP Contract and the LM Contract

The TCP Contract and the LM Contract will form part of the normal commercial activities of HAECO in the ordinary and normal course of its business and it is expected that they will contribute to growth in HAECO's revenue and profitability.

Directors

As at the date of this announcement, the Directors of HAECO are:
 Executive Directors: D.M. Turnbull, P.K. Chan, M.A. Bowles, M. Hayman, J.C.G. Bremridge
 Non-Executive Directors: D.G. Cridland, D.C.Y. Ho, P.A. Johansen, A.N. Tyler
 Independent Non-Executive Directors: J.S. Dickson Leach, A.S.C. Wu, L.K.K. Leong

Definitions

"HAECO" Hong Kong Aircraft Engineering Company Limited, the principal activity of which is the provision of overhaul and maintenance services for commercial aircraft.
 "Cathay Pacific" Cathay Pacific Airways Limited, the principal activity of which is the operation of scheduled airline services. It owns 27.45% of HAECO.
 "AHK" AHK Air Hong Kong Limited, the principal activity of which is the operation of express air cargo transportation services to major cities in the Asia Pacific region. It is a 60% owned subsidiary of Cathay Pacific.
 "AHK's Fleet" AHK's Airbus A300-600 freighters, comprising initially six aircraft; AHK has options to purchase a further four such aircraft.
 "the Directors" the directors of HAECO.

By Order of the Board

Hong Kong Aircraft Engineering Company Limited

Margaret Yu
 Company Secretary
 Hong Kong, 13th September 2004