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HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00044)

Announcement 2009 Interim Results

CHAIRMAN'S STATEMENT

Consolidated Results

The profit attributable to the Company's shareholders for the first half of 2009 was HK\$430 million, a decrease of 27% from the same period in 2008. The result reflects increasingly difficult trading conditions for HAECO's businesses as airlines cut capacity and expenditure in response to falling demand.

Your Directors have declared an interim dividend of HK\$0.50 per share (2008: HK\$0.93 per share) payable on 22nd September 2009 to shareholders registered at the close of business on 11th September 2009. The share register will be closed from 7th to 11th September 2009, both dates inclusive.

Operations

Despite the downturn in demand the Company has continued to invest in both Hong Kong and Mainland China to expand its facilities and the range of services it can offer to customers:

- Construction of the Company's third hangar in Hong Kong is scheduled to open in September 2009.
- Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited is expected to open its specialist advanced composite repair facility in the fourth quarter of 2009.
- Taikoo (Xiamen) Aircraft Engineering Company Limited's ("TAECO") sixth hangar in Xiamen is expected to open in mid-2010.
- Taikoo Engine Services (Xiamen) Company Limited ("TEXL") is upgrading its facility with first engine induction expected in the second quarter of 2010.

- Taikoo Sichuan Aircraft Engineering Services Company Limited is constructing its first hangar in Chengdu, which is due to open in mid-2010.
- Hong Kong Aero Engine Services Limited's ("HAESL") extension is expected to be completed in the first quarter of 2011.

Prospects

Business activity in the second half of 2009 is expected to be substantially weaker than in the first-half as airlines continue to reduce services and expenditure. The HAECO Group of companies has significant unsold capacity for the first time in several years. Despite its considerable competitive advantages the timing of any sustained recovery in the HAECO Group's business will depend upon a recovery in global aviation generally.

Christopher Pratt

Chairman

Hong Kong, 4th August 2009

REVIEW OF OPERATIONS

The Group's profit attributable to shareholders comprises:

	Six months ended 30th June		
	2009	2008	Change
	HK\$M	HK\$M	
HAECO Hong Kong operations	131	232	-44%
Share of:			
TAECO	98	162	-40%
HAESL and SAESL	195	178	+10%
Other subsidiary and jointly controlled companies	6	19	-68%
	430	591	-27%

HAECO Hong Kong Operations

HAECO's Hong Kong operations comprise heavy airframe maintenance, line maintenance at the passenger and cargo terminals at Hong Kong International Airport, component overhaul at Tseung Kwan O and third party inventory management. Business has continued to soften in the first half of 2009.

Heavy airframe maintenance manhours sold was 1.2 million, 8% lower than the first half of 2008. 61% of the work was from non-Hong Kong based carriers.

Line maintenance movements reduced by 10% from the first half of 2008 with an average of 248 aircraft handled per day.

Component repair activity at the Tseung Kwan O facility totalled 0.17 million manhours, 42% higher than that of the first half of 2008 due to special projects carried out during the period.

HAECO's Inventory Management Department managed third party rotatable spares for various aircraft, including Airbus A300-600F, A320-200 and A330-300 as well as Boeing 747-200F aircraft.

HAECO's third hangar is scheduled to open in September 2009.

Taikoo (Xiamen) Aircraft Engineering Company Limited

Heavy airframe maintenance manhours sold by TAECO decreased by 18% from the first half of 2008 to 1.83 million hours due to lower demand.

Line maintenance operations in Xiamen, Shanghai and Beijing decreased by 12% on the first half of 2008 with aircraft handled averaging 38 per day.

TAECO's sixth hangar is expected to open in mid-2010.

Engine Overhaul

Hong Kong Aero Engine Services Limited

HAESL (45% owned) and its jointly controlled company, Singapore Aero Engine Services Pte. Limited (20% owned by HAESL), returned satisfactory results for the period due to a favourable work mix.

HAESL is constructing an additional component repair extension which is due to open in the first quarter of 2011.

Other Subsidiary and Jointly Controlled Companies

Results of the Group's other subsidiary and jointly controlled companies during the period were in line with expectations.

Environment

The Group continues to monitor closely the impact of its operations on the environment and makes every effort to reduce this impact. Details of the activities which the Company regards as important both to the community and for our staff can be found in the Environmental, Health and Safety report on our website.

Staff

The Group's headcount was:

	<u>30th June</u>	<u>31st December</u>	
	2009	2008	Change
HAECO	4,721	4,861	-3%
TAECO	5,220	5,268	-1%
HAESL	901	908	-1%
Other subsidiary and jointly controlled companies in which HAECO and TAECO own at least 20%	1,747	1,701	+3%
	<u>12,589</u>	<u>12,738</u>	-1%

FINANCIAL REVIEW

Net Assets

The Group's non-current assets increased from HK\$6,227 million to HK\$6,508 million in the first half of 2009 mainly due to additions in fixed assets of HK\$380 million, primarily for the hangars, offset by HK\$183 million of depreciation and amortisation. The Group's net current assets at 30th June 2009, excluding net liquid funds, totalled HK\$165 million.

Liquidity and Financing

At 30th June 2009, the Group had net liquid funds, less short-term loans, of HK\$153 million, together with long-term loans of HK\$426 million. In addition, committed banking facilities amounted to HK\$1,457 million, of which HK\$576 million remained undrawn. Unused uncommitted banking facilities amounted to HK\$99 million.

Currency Fluctuations

The Group's income is substantially in HK dollars and US dollars and is matched by expenditure in the same currencies. The exception to this is TAECO which has substantial Renminbi expenditure. TAECO reduces its exposure to changes in the exchange rate of the Renminbi against the US dollar by retaining surplus funds in Renminbi and by selling US dollars and HK dollars forward for Renminbi. At 30th June 2009, TAECO had sold forward a total of US\$87 million and HK\$224 million to cover part of its Renminbi requirement for the second half of 2009 and 2010.

Consolidated income statement

for the six months ended 30th June 2009 - unaudited

	Note	Six months ended 30th June		Year ended	
		2009 HK\$M	2008 HK\$M	31st December 2008 HK\$M	
Turnover	4	2,165	2,496	4,901	
Operating expenses:					
Staff remuneration and benefits		(976)	(949)	(1,965)	
Cost of direct material and job expenses		(494)	(614)	(1,208)	
Depreciation, amortisation and impairment		(183)	(142)	(305)	
Insurance and utilities		(49)	(46)	(101)	
Operating lease rentals - land and buildings		(62)	(57)	(116)	
Repairs and maintenance		(59)	(59)	(154)	
Other operating expenses		(50)	(59)	(134)	
		(1,873)	(1,926)	(3,983)	
Other gains - net	5	24	18	92	
Operating profit	4	316	588	1,010	
Net finance (charges)/income	6	(2)	5	7	
Net operating profit		314	593	1,017	
Share of after-tax results of jointly controlled companies	10	235	213	462	
Profit before taxation		549	806	1,479	
Taxation	7	(46)	(82)	(129)	
Profit for the period		503	724	1,350	
Attributable to:					
The Company's shareholders		430	591	1,138	
Minority interests		73	133	212	
		503	724	1,350	
Dividends					
Interim		83	155	155	
Special		-	-	-	
Final - proposed		-	-	374	
		83	155	529	
Earnings per share attributable to the Company's shareholders (basic and diluted)	8	HK\$2.59	HK\$3.55	HK\$6.84	
		2009	2008		
		Interim	Interim	Final	Total
Dividends per share		HK\$0.50	HK\$0.93	HK\$2.25	HK\$3.18

Consolidated statement of comprehensive income
for the six months ended 30th June 2009 - unaudited

	Six months ended 30th June		Year ended 31st December
	2009	2008	2008
	HK\$M	HK\$M	HK\$M
Profit for the period	503	724	1,350
Other comprehensive income			
Changes in cash flow hedges			
- Recognised during the period	5	11	(68)
- Transferred to the income statement	(27)	(24)	(52)
- Deferred tax recognised	5	(8)	6
Exchange differences	(1)	13	(4)
Total comprehensive income for the period	<u>485</u>	<u>716</u>	<u>1,232</u>
Total comprehensive income for the period attributable to:			
The Company's shareholders	420	591	1,073
Minority interests	<u>66</u>	<u>125</u>	<u>159</u>
	<u>485</u>	<u>716</u>	<u>1,232</u>

Consolidated statement of financial position*at 30th June 2009 - unaudited*

	Note	30th June 2009 HK\$M	31st December 2008 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	4,382	4,197
Leasehold land and land use rights	9	321	326
Intangible assets	9	546	545
Jointly controlled companies	10	1,033	907
Retirement benefit assets	11	181	211
Deferred tax assets		39	32
Derivative financial instruments	12	6	9
		<u>6,508</u>	<u>6,227</u>
Current assets			
Stocks of aircraft parts		120	130
Work in progress		100	195
Trade and other receivables	13	702	628
Derivative financial instruments	12	28	49
Short-term deposits		10	11
Cash and cash equivalents		837	881
		<u>1,797</u>	<u>1,894</u>
Current liabilities			
Trade and other payables	14	751	1,112
Taxation		21	45
Derivative financial instruments	12	13	7
Short-term loans		694	289
		<u>1,479</u>	<u>1,453</u>
Net current assets		<u>318</u>	<u>441</u>
Total assets less current liabilities		<u>6,826</u>	<u>6,668</u>
Non-current liabilities			
Receipt in advance		85	90
Deferred tax liabilities		299	272
Long-term loans		426	388
Derivative financial instruments	12	5	18
		<u>815</u>	<u>768</u>
NET ASSETS		<u>6,011</u>	<u>5,900</u>
Equity attributable to the Company's shareholders			
Share capital	15	166	166
Reserves	16	4,841	4,795
		<u>5,007</u>	<u>4,961</u>
Minority interests		<u>1,004</u>	<u>939</u>
TOTAL EQUITY		<u>6,011</u>	<u>5,900</u>

Consolidated statement of cash flows

for the six months ended 30th June 2009 - unaudited

	Six months ended		Year ended
	30th June		31st December
	2009	2008	2008
	HK\$M	HK\$M	HK\$M
Operating activities			
Cash generated from operations	399	506	1,193
Interest paid	(6)	(4)	(11)
Interest received	3	11	19
Taxation paid	(45)	(68)	(137)
<i>Net cash generated from operating activities</i>	<u>351</u>	<u>445</u>	<u>1,064</u>
Investing activities			
Purchase of property, plant and equipment	(505)	(435)	(713)
Purchase of intangible assets	(3)	-	(515)
Sale of property, plant and equipment	3	14	41
Sale of shareholdings in jointly controlled companies	-	-	86
Acquisition of a subsidiary company	-	(218)	(218)
Purchase of shareholdings in jointly controlled companies	(33)	(67)	(67)
Loans advanced to a third party	-	(13)	(13)
Loans repaid by third party	-	-	2
Dividends received from jointly controlled companies	140	212	381
Net decrease/(increase) in short-term deposits other than cash and cash equivalents	<u>1</u>	<u>(1)</u>	<u>6</u>
<i>Net cash used in investing activities</i>	<u>(397)</u>	<u>(508)</u>	<u>(1,010)</u>
<i>Net cash (outflow)/inflow before financing activities</i>	<u>(46)</u>	<u>(63)</u>	<u>54</u>
Financing activities			
Capital contribution from minority interests	-	35	35
Proceeds from short-term loans	412	424	189
Repayment of short-term loans	(7)	(29)	(90)
Proceeds from long-term loans	38	-	388
Dividends paid to the Company's shareholders	(374)	(366)	(521)
Dividends paid to minority interests	(67)	(33)	(33)
<i>Net cash generated from/(used in) financing activities</i>	<u>2</u>	<u>31</u>	<u>(32)</u>
Net (decrease)/increase in cash and cash equivalents	(44)	(32)	22
Cash and cash equivalents at 1st January	<u>881</u>	<u>859</u>	<u>859</u>
Cash and cash equivalents at end of the period	<u>837</u>	<u>827</u>	<u>881</u>

Consolidated statement of changes in equity
for the six months ended 30th June 2009 - unaudited

	Six months ended		Year ended
	30th June		31st December
	2009	2008	2008
	HK\$M	HK\$M	HK\$M
Total equity at 1st January	5,900	4,894	4,894
Total comprehensive income for the period	485	716	1,232
Dividends paid to the Company's shareholders	(374)	(366)	(521)
Dividends cancellation/(paid or payable to) minority interests	-	292	224
Minority interests arising on new subsidiary companies	-	36	36
Capital contribution from minority interests	-	35	35
Total equity at the end of the period	<u>6,011</u>	<u>5,607</u>	<u>5,900</u>

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Basis of preparation and accounting policies

- (a) The unaudited consolidated accounts have been prepared on a basis consistent with the principal accounting policies adopted in the 2008 annual accounts with the addition of certain new standards and interpretations of Hong Kong Financial Reporting Standards ("HKFRS") issued and effective as at the time of preparing this information. Where applicable, the comparatives have been amended as required.

In 2009, the Group adopted the following new or revised standards and interpretations of HKFRS below, which are relevant to its operations. Where applicable, the 2008 comparatives have been amended as required.

		Effective for accounting periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1st January 2009
HKAS 23 (Revised)	Borrowing Costs	1st January 2009
Amendments to HKFRS 1 and HKAS 27	Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1st January 2009
HKFRS 8	Operating Segments	1st January 2009
Annual improvements to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants in October 2008		

The adoption of such standards or interpretations does not result in substantial changes to the Group's accounting policies and has no significant effect on the results reported for the first half of 2009. However, as a result of the adoption of HKAS 1 (revised) "Presentation of Financial Statements", changes in equity arising from transactions with shareholders in their capacity as shareholders are presented separately from all other income and expenses in a revised statement of changes in equity. All such items of income and expenses are presented in the statement of comprehensive income.

HKFRS 8 "Operating Segments" replaces HKAS 14 "Segment Reporting". It requires a "management approach" under which information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented.

- (b) The consolidated accounts have been prepared in accordance with the HKAS 34 "Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. This consolidated financial information should be read in conjunction with the 2008 annual accounts.

NOTES TO THE CONSOLIDATED ACCOUNTS

2. Critical accounting estimates and judgements

The Group makes estimates and assumptions as appropriate in the preparation of the accounts. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include the useful life of property, plant and equipment and the determination of tax.

3. Management of financial risk factors

The Group's activities are exposed to movements of foreign currencies, fair value interest rate risk, credit risk and liquidity risk. These risks are reviewed periodically to ensure their impact on the Group's financial performance is minimised through the use of forward contracts, options or other appropriate derivative financial instruments. It is the Group's policy to use the above derivative instruments solely for the purpose of financial risk management, and not for speculative purposes.

NOTES TO THE CONSOLIDATED ACCOUNTS

4. Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to assess performance and allocate resources. The Board considers the business primarily on an entity by entity perspective. The Group is engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong and Mainland China.

The segment information provided to the Board of Directors for the reportable segments for the period ended is as follows:

Six months ended 30th June 2009	HAECO	TAECO	TEXL	HAESL		Other segments - subsidiary companies	Inter-segment elimination/unallocated adjustments	Total
	HK\$M	HK\$M	HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
Turnover	1,357	760	-	3,816	(3,816)	19	-	2,136
Inter-segment sales	70	5	-	1	(1)	3	(49)	29
Total Turnover	<u>1,427</u>	<u>765</u>	<u>-</u>	<u>3,817</u>	<u>(3,817)</u>	<u>22</u>	<u>(49)</u>	<u>2,165</u>
Operating profit/(loss)	149	211	(19)	445	(445)	(25)	-	316
Finance income	1	2	-	-	-	-	-	3
Finance charges	(1)	(1)	-	(1)	1	(3)	-	(5)
Share of after-tax results of jointly controlled companies	-	-	-	62	133	-	40	235
Profit before taxation	149	212	(19)	506	(311)	(28)	40	549
Taxation	(18)	(35)	1	(73)	73	7	(1)	(46)
Profit for the period	<u>131</u>	<u>177</u>	<u>(18)</u>	<u>433</u>	<u>(238)</u>	<u>(21)</u>	<u>39</u>	<u>503</u>
Depreciation and amortisation	73	67	13	28	(28)	13	-	166
Impairment of stock and rotatable spares - provision	20	5	-	3	(3)	-	-	25

Six months ended 30th June 2008	HAECO	TAECO	TEXL	HAESL		Other segments - subsidiary companies	Inter-segment elimination/unallocated adjustments	Total
	HK\$M	HK\$M	HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
Turnover	1,512	920	-	3,318	(3,318)	7	-	2,439
Inter-segment sales	98	4	-	2	(2)	-	(45)	57
Total Turnover	<u>1,610</u>	<u>924</u>	<u>-</u>	<u>3,320</u>	<u>(3,320)</u>	<u>7</u>	<u>(45)</u>	<u>2,496</u>
Operating profit/(loss)	249	353	-	414	(414)	(14)	-	588
Finance income	9	1	-	2	(2)	1	-	11
Finance charges	(2)	(3)	-	(2)	2	(1)	-	(6)
Share of after-tax results of jointly controlled companies	-	-	-	51	127	-	35	213
Profit before taxation	256	351	-	465	(287)	(14)	35	806
Taxation	(24)	(57)	-	(70)	70	-	(1)	(82)
Profit for the period	<u>232</u>	<u>294</u>	<u>-</u>	<u>395</u>	<u>(217)</u>	<u>(14)</u>	<u>34</u>	<u>724</u>
Depreciation and amortisation	75	65	-	28	(28)	2	-	142
Impairment of stock and rotatable spares - provision	4	3	-	-	-	-	-	7

NOTES TO THE CONSOLIDATED ACCOUNTS

4. Segment information (continued)

	30th June	31st December
	2009	2008
	HK\$M	HK\$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	7,243	7,185
Unallocated: investment in jointly controlled companies	1,033	907
Unallocated: intangible assets - goodwill	29	29
Total assets	<u>8,305</u>	<u>8,121</u>

Reportable segments' liabilities are equal to total liabilities.

HAESL has been determined as a segment, although it is a jointly controlled company. The Board of Directors reviews the full income statement and net assets of this entity as part of its performance review and resource allocation decisions. Full information on turnover, profit, assets and liabilities has been included in the above, although these amounts do not appear in the Group's income statement and statement of financial position on a line by line basis. Adjustments are also presented in the above to reflect the Group's equity share of HAESL in the income statement and statement of financial position.

	Six months ended		Year ended
	30th June		31st December
	2009	2008	2008
	HK\$M	HK\$M	HK\$M
The Group's turnover derived from external customers:			
In Hong Kong	1,023	1,213	2,285
From other countries	1,142	1,283	2,616
	<u>2,165</u>	<u>2,496</u>	<u>4,901</u>
Total non-current assets other than financial instruments, deferred assets and retirement benefit assets:			
In Hong Kong	3,205	2,647	2,985
In other countries (mainly in Mainland China)	3,077	2,992	2,990
	<u>6,282</u>	<u>5,639</u>	<u>5,975</u>
Turnover derived from a single external customer	<u>989</u>	<u>1,057</u>	<u>2,069</u>

NOTES TO THE CONSOLIDATED ACCOUNTS

5. Other gains - net

	Six months ended		Year ended
	30th June		31st December
	2009	2008	2008
	HK\$M	HK\$M	HK\$M
Net foreign exchange gains	22	19	58
Fair value gains/(losses) on financial derivative instruments:			
Forward foreign exchange contracts not qualified as cash flow hedges	2	(1)	(4)
Profit on sale of jointly controlled companies	-	-	38
	<u>24</u>	<u>18</u>	<u>92</u>

6. Net finance (charges)/income

	Six months ended		Year ended
	30th June		31st December
	2009	2008	2008
	HK\$M	HK\$M	HK\$M
Interest income:			
Deposits and bank balances	3	11	18
Interest expenses:			
Bank loans	(5)	(6)	(11)
	<u>(2)</u>	<u>5</u>	<u>7</u>

7. Taxation

	Six months ended		Year ended
	30th June		31st December
	2009	2008	2008
	HK\$M	HK\$M	HK\$M
Current taxation:			
Hong Kong profits tax	-	26	53
Overseas tax	29	58	86
Over-provisions in prior years	(8)	-	-
	<u>21</u>	<u>84</u>	<u>139</u>
Deferred taxation:			
Increase in deferred tax assets	(7)	(9)	(24)
Increase in deferred tax liabilities	32	7	14
	<u>46</u>	<u>82</u>	<u>129</u>

Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates prevailing in the respective jurisdictions.

Share of after-tax results of jointly controlled companies is stated after taxation charge of HK\$41 million for the period ended 30th June 2009 (30th June 2008: HK\$37 million; 31st December 2008: HK\$83 million).

NOTES TO THE CONSOLIDATED ACCOUNTS

8. Earnings per share (basic and diluted)

Earnings per share are calculated by reference to the profit attributable to the Company's shareholders for the period ended 30th June 2009 of HK\$430 million (30th June 2008 : HK\$591 million; 31st December 2008 : HK\$1,138 million) and to the weighted average of 166,324,850 (30th June 2008 : 166,324,850; 31st December 2008 : 166,324,850) ordinary shares in issue during the period.

9. Property, plant and equipment, leasehold land and land use rights and intangible assets

	Property, plant and equipment	Leasehold land and land use rights	Intangible assets - computer software, goodwill and technical licences
	<u>HK\$M</u>	<u>HK\$M</u>	<u>HK\$M</u>
Net book value:			
At 31st December 2008	4,197	326	545
Exchange differences	-	-	(1)
Additions and transfers	377	-	3
Disposals	(15)	-	-
Depreciation, amortisation and impairment	(177)	(5)	(1)
At 30th June 2009	<u>4,382</u>	<u>321</u>	<u>546</u>

NOTES TO THE CONSOLIDATED ACCOUNTS

10. Jointly controlled companies

The Group's share of the results, assets and liabilities of the jointly controlled companies for the period ended and at 30th June are as follows:

	HAESL			Others			Total		
	Six months ended		Year	Six months ended		Year	Six months ended		Year
	30th June		ended 31st	30th June		ended 31st	30th June		ended 31st
	2009	2008	2008	2009	2008	2008	2009	2008	2008
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Turnover	1,718	1,494	3,342	178	195	360	1,896	1,689	3,702
Operating expenses	(1,518)	(1,308)	(2,918)	(130)	(155)	(283)	(1,648)	(1,463)	(3,201)
Operating profit	200	186	424	48	40	77	248	226	501
Net finance income/(charges)	-	-	-	-	1	(1)	-	1	(1)
Share of after-tax results of jointly controlled companies	28	23	45	-	-	-	28	23	45
Profit before taxation	228	209	469	48	41	76	276	250	545
Taxation	(33)	(31)	(72)	(8)	(6)	(11)	(41)	(37)	(83)
Profit for the period	195	178	397	40	35	65	235	213	462
Dividends paid	131	200	343	9	12	38	140	212	381
Net assets employed:									
Non-current assets	460	417	423	220	158	189	680	575	612
Current assets	684	686	761	195	216	164	879	902	925
	1,144	1,103	1,184	415	374	353	1,559	1,477	1,537
Current liabilities	(375)	(430)	(484)	(113)	(74)	(114)	(488)	(504)	(598)
Non-current liabilities	(35)	(75)	(29)	-	(38)	-	(35)	(113)	(29)
Shareholders' loans	-	-	-	(3)	(3)	(3)	(3)	(3)	(3)
	734	598	671	299	259	236	1,033	857	907
Financed by:									
Shareholders' equity	734	598	671	299	259	236	1,033	857	907

NOTES TO THE CONSOLIDATED ACCOUNTS

11. Retirement benefits

Movement in the assets recognised in the statement of financial position:

	Local Scheme	Expatriate Scheme	Total
	HK\$M	HK\$M	HK\$M
At 31st December 2008	157	54	211
Decrease due to:			
Total expense charged	(28)	(2)	(30)
At 30th June 2009	129	52	181

12. Derivative financial instruments

	Assets		Liabilities	
	30th June 2009	31st December 2008	30th June 2009	31st December 2008
	HK\$M	HK\$M	HK\$M	HK\$M
Forward foreign exchange contracts:				
Cash flow hedges	34	56	16	19
Not qualified as cash flow hedges	-	2	2	6
Total	34	58	18	25
Less: non-current portion				
Forward foreign exchange contracts:				
Cash flow hedges	6	9	5	18
Current portion	28	49	13	7

The notional principal amounts of the outstanding forward foreign exchange contracts at 30th June 2009 were HK\$912 million (31st December 2008: HK\$1,363 million).

NOTES TO THE CONSOLIDATED ACCOUNTS

13. Trade and other receivables

The credit terms given to customers vary and are generally based on their individual financial strength. Credit evaluations of trade receivables are performed periodically to minimise credit risk associated with receivables.

	<u>30th June</u>	<u>31st December</u>
	2009	2008
	HK\$M	HK\$M
Trade receivables	353	323
Less: Provision for impairment of receivables	(20)	(20)
	<u>333</u>	<u>303</u>
Amounts due from jointly controlled companies	18	15
Amounts due from related parties	164	152
Other receivables and prepayments	187	158
	<u>702</u>	<u>628</u>
The aged analysis of trade receivables is as follows:		
Current	195	137
Up to 3 months overdue	59	105
3 to 6 months overdue	16	3
Over 6 months overdue	83	78
	<u>353</u>	<u>323</u>

The above includes the receivables due from OASIS Hong Kong Airlines Limited arising on various services performed by the Group. OASIS Hong Kong Airlines Limited and OASIS Growth and Income Investments Limited entered into liquidation on 11th June 2008. In accordance to a consent summons filed jointly together with the Provisional Liquidator, which was granted by the court in early May 2008, an amount of HK\$78 million from the net proceeds of aircraft sales had been deposited into a separate bank account pending determination of the Group's claim by the court.

NOTES TO THE CONSOLIDATED ACCOUNTS

14. Trade and other payables

	30th June 2009 HK\$M	31st December 2008 HK\$M
Trade payables	101	133
Amounts due to jointly controlled companies	1	-
Amounts due to related parties	52	26
Other payables and accruals	597	953
	<u>751</u>	<u>1,112</u>

The aged analysis of trade payables is as follows:

Current	86	124
Up to 3 months overdue	14	9
3 to 6 months overdue	1	-
	<u>101</u>	<u>133</u>

15. Share capital

During the period under review, no purchase, sale or redemption of the shares of the Company has been effected by the Company or its subsidiary companies on the Hong Kong Stock Exchange. At 30th June 2009, 166,324,850 shares were in issue (31st December 2008: 166,324,850 shares).

16. Reserves

	Revenue reserve HK\$M	Capital redemption reserve HK\$M	Exchange translation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 31st December 2008	4,749	19	10	17	4,795
Total comprehensive income for the period	430	-	(1)	(9)	420
Previous year's final dividend paid	(374)	-	-	-	(374)
At 30th June 2009	<u>4,805</u>	<u>19</u>	<u>9</u>	<u>8</u>	<u>4,841</u>

NOTES TO THE CONSOLIDATED ACCOUNTS

17. Capital commitments

	<u>30th June</u> 2009	<u>31st December</u> 2008
	HK\$M	HK\$M
Contracted but not provided for in the accounts	490	459
Authorised by Directors but not contracted for	<u>1,227</u>	<u>1,786</u>
	<u>1,717</u>	<u>2,245</u>

Capital commitments mainly relate to the construction of the third hangar at the Hong Kong International Airport by the Company, the sixth hangar by TAECO and an engine overhaul facility by TEXL at Xiamen, Mainland China.

18. Contingencies

At 30th June 2009, the Company's guarantees in respect of bank loans of a subsidiary company were HK\$408 million (31st December 2008: HK\$358 million).

NOTES TO THE CONSOLIDATED ACCOUNTS

19. Related party and continuing connected transactions

The Group has a number of transactions with its related parties and connected persons. All trading transactions are conducted in the normal course of business at prices and on terms similar to those charged to/by and contracted with other third party customers/suppliers of the Group. The aggregated transactions which are material to the Group and which have not been disclosed elsewhere in the interim report are summarised below:

	Note	Jointly controlled companies			Other related parties			Total		
		Six months ended		Year ended	Six months ended		Year ended	Six months ended		Year ended
		30th June	2008	December 2008	30th June	2008	December 2008	30th June	2008	December 2008
		HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	
Revenue from provision of services:										
Cathay Pacific Airways Limited Group	a	-	-	-	989	1,057	2,069	989	1,057	2,069
Other revenue	b	29	57	99	-	-	-	29	57	99
		<u>29</u>	<u>57</u>	<u>99</u>	<u>989</u>	<u>1,057</u>	<u>2,069</u>	<u>1,018</u>	<u>1,114</u>	<u>2,168</u>
Purchases:										
Costs payable to John Swire & Sons (H.K.) Limited under services agreement										
- Service fees payable during the period	a				12	20	35	12	20	35
- Expenses reimbursed at cost	a				20	16	28	20	16	28
Subtotal	a				<u>32</u>	<u>36</u>	<u>63</u>	<u>32</u>	<u>36</u>	<u>63</u>
- Share of administrative services					2	1	3	2	1	3
Total					<u>34</u>	<u>37</u>	<u>66</u>	<u>34</u>	<u>37</u>	<u>66</u>
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited										
					2	2	4	2	2	4
Spares purchases from Cathay Pacific Airways Limited										
					11	16	61	11	16	61
Other purchases	c	2	5	8	4	8	12	6	13	20
		<u>2</u>	<u>5</u>	<u>8</u>	<u>51</u>	<u>63</u>	<u>143</u>	<u>53</u>	<u>68</u>	<u>151</u>

Notes:

- These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.
- Other revenue from jointly controlled companies mainly arose from the provision to HAESL of engine component repairs and facilities rental on a commercial arm's length basis and of certain administrative services charged at cost.
- Purchases from jointly controlled companies comprised mainly aircraft component overhaul charges by HAESL.
- Amounts due from and due to jointly controlled companies and other related parties at 30th June 2009 are disclosed in note 13 and note 14 to the accounts.

Corporate governance

The Audit Committee of the Company has reviewed the results for the six-month period ended 30th June 2009.

The Company has complied with all the code provisions of the Listing Rules and has met most of the recommended best practices set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the accounting period covered by the interim report.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“the Model Code”) contained in Appendix 10 to the Listing Rules.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim report, they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions.

Directors' particulars

Changes in the particulars of the Directors are set out as follows:

1. Christopher Pratt has been appointed Chairman of Swire Beverages Limited.
2. Albert Lam has retired as an Executive Director of K. Wah International Holdings Limited.

Directors' interests

At 30th June 2009, the registers maintained under Section 352 of the Securities and Futures Ordinance (“SFO”) showed that Directors held the following beneficial interests in the shares of Hong Kong Aircraft Engineering Company Limited and Taikoo (Xiamen) Aircraft Engineering Company Limited, its associated corporation (within the meaning of Part XV of the SFO):

Hong Kong Aircraft Engineering Company Limited	Capacity	No. of shares	Percentage of issued capital (%)	Note
The Hon. Sir Michael David Kadoorie (Alternate Director)	Trust	3,782,886	2.27	1
D.C.L. Tong	Personal	20,000	0.01	

Taikoo (Xiamen) Aircraft Engineering Company Limited	Capacity	Percentage of issued capital (%)	Note
P.K. Chan	Controlled corporation	2.00	2

Notes

1. The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.
2. The shares are held by Kin Kuen Development Company Limited in which P.K. Chan holds a 30% interest.

Other than as stated above, no Director or Chief Executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Substantial shareholders' and other interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 30th June 2009 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	Number of shares	Percentage of issued capital (%)	Type of interest (notes)
1. Cathay Pacific Airways Limited	45,649,686	27.45	Beneficial owner
2. Swire Pacific Limited	101,397,903	60.96	Beneficial owner and attributable interest (1)
3. John Swire & Sons Limited	101,397,903	60.96	Attributable interest (2)

Notes: At 30th June 2009:

- (1) Swire Pacific Limited was interested in 55,748,217 shares of the Company as beneficial owner and was also deemed to be interested in the 45,649,686 shares of the Company directly held by Cathay Pacific Airways Limited by virtue of Swire Pacific Limited's interest of approximately 39.97% in Cathay Pacific Airways Limited;
- (2) John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 101,397,903 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's interests in shares of Swire Pacific Limited representing approximately 38.49% of the issued share capital and approximately 56.65% of the voting rights.

Dividend and Book Closure

The Directors declared an interim dividend of HK\$0.50 per share (2008: HK\$0.93 per share) for the period ended 30th June 2009. This interim dividend which totals HK\$83 million (2008: HK\$155 million) will be paid on 22nd September 2009 to shareholders registered at the close of business on the record date, 11th September 2009.

The register of members will be closed from 7th September 2009 to 11th September 2009, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 4th September 2009.

The Directors of the Company as at the date of this announcement are:

Executive Directors: C.D. Pratt (Chairman), P.K. Chan, M. Hayman, M.M.S. Low, A.K.W. Tang;

Non-Executive Directors: C.P. Gibbs, D.C.Y. Ho, P.A. Johansen, M.B. Swire, The Hon. Sir Michael Kadoorie (Alternate Director to D.C.L. Tong); and

Independent Non-Executive Directors: R.E. Adams, A.K.Y. Lam, L.K.K. Leong and D.C.L. Tong.

By Order of the Board

Hong Kong Aircraft Engineering Company Limited

Christopher Pratt

Chairman

Hong Kong, 4th August 2009

Website: www.haeco.com