
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hong Kong Aircraft Engineering Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Hong Kong Aircraft Engineering Company Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 44)

**Continuing Connected Transactions
Aircraft Maintenance**

Independent financial adviser: ING Bank N.V.



A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 10 of this circular. A letter from ING Bank N.V., the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 22 of this circular.

A notice convening the EGM to be held on Friday, 29th June 2007 at 11:00 a.m. at the Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong is set out on page 28 of this circular. Whether or not you are able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Computershare Hong Kong Investor Services Limited, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

5th June 2007

DEFINITIONS

In this circular the following expressions have the following meanings unless the context requires otherwise:

AHK	AHK Air Hong Kong Limited, a non-wholly owned subsidiary of Cathay Pacific, the principal activity of which is the operation of cargo airline services.
BM Services	Comprehensive range of scheduled maintenance services such as airframe heavy checks, major structural and avionics modifications, refurbishments, painting and freighter conversions.
CAO Services	Component and avionics overhaul services to a range of aircraft components such as mechanical, hydraulic and avionics equipment.
Cathay Pacific	Cathay Pacific Airways Limited, a company incorporated in Hong Kong and listed on the Stock Exchange, the principal activity of which is the operation of scheduled airline services. It owns 27.45% of the issued share capital of HAECO.
Cathay Pacific Group	Cathay Pacific and its subsidiaries, including AHK and Dragonair.
Directors	The directors of the Company.
Dragonair	Hong Kong Dragon Airlines Limited, a wholly owned subsidiary of Cathay Pacific, the principal activity of which is the operation of scheduled airline services.
EGM	Extraordinary General Meeting of the Company.
Engineering Services	Services in support of LM Services, BM Services and CAO Services, including aircraft documentation, technical data exchange and interior product maintenance and such other support services to be agreed from time to time between Cathay Pacific Group and HAECO Group.
Framework Agreement	The framework agreement dated 21st May 2007 between Cathay Pacific and HAECO for provision of the Services by HAECO Group to Cathay Pacific Group under the Relevant Agreements and any further agreements between Cathay Pacific Group and HAECO Group.
HAECO or the Company	Hong Kong Aircraft Engineering Company Limited, a company incorporated in Hong Kong and listed on the Stock Exchange, the principal activity of which is the provision of overhaul and maintenance services for commercial aircraft.
HAECO Group or the Group	HAECO and its subsidiaries, including TAECO and Taikoo Landing Gear.
HKIA	Hong Kong International Airport.

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<i>Independent Board Committee</i>	An independent committee of the Board of Directors comprising R.E. Adams, J.S. Dickson Leach, A.K.Y. Lam, L.K.K. Leong and D.C.L. Tong, all of whom are independent non-executive Directors.
<i>Independent Financial Adviser</i>	ING Bank N.V.
<i>Independent Shareholders</i>	Shareholders of HAECO apart from Cathay Pacific and Swire and their associates.
<i>Latest Practicable Date</i>	30th May 2007, being the last practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular.
<i>Listing Rules</i>	The Rules Governing the Listing of Securities on the Stock Exchange.
<i>LM Services</i>	Line maintenance services covering transit and overnight servicing as well as progressive maintenance checks up to "A" checks including defect rectification. Also includes non-technical services such as aircraft towing, water/toilet servicing, exterior aircraft washing/waxing and cabin cleaning and ground equipment support.
<i>Model Code</i>	Model Code for Securities Transactions by Directors of Listed Companies, being Appendix 10 of the Listing Rules.
<i>PRC</i>	The People's Republic of China.
<i>Relevant Agreement(s)</i>	Any one or all of the following agreements: <ol style="list-style-type: none">(1) Total Care Package Contract dated 9th September 2004 between HAECO and AHK, pursuant to which HAECO published announcements dated 13th September 2004, 16th February 2006 and 14th February 2007;(2) Line Maintenance Contract dated 9th September 2004 between HAECO and AHK, pursuant to which HAECO published announcements dated 13th September 2004, 16th February 2006 and 14th February 2007;(3) HAECO Service Agreement dated 10th November 2005 between Cathay Pacific and HAECO, pursuant to which Cathay Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to shareholders dated 22nd November 2005;(4) TAECO Service Agreement dated 10th November 2005 between Cathay Pacific and TAECO, pursuant to which Cathay Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to shareholders dated 22nd November 2005;(5) TAECO Line Maintenance Agreement dated 10th November 2005 between Cathay Pacific and TAECO, pursuant to which Cathay

DEFINITIONS

Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to shareholders dated 22nd November 2005; and/or

- (6) any further agreements entered into between Cathay Pacific Group and HAECO Group in respect of maintenance of aircraft, parts or components from time to time.

Services	The maintenance services in respect of aircraft, parts and/or components provided under the Framework Agreement and/or the Relevant Agreements.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
Shareholders	The shareholders of the Company.
Stock Exchange	The Stock Exchange of Hong Kong Limited.
Swire	Swire Pacific Limited, a company incorporated in Hong Kong and listed on the Stock Exchange.
TAECO	Taikoo (Xiamen) Aircraft Engineering Company Limited, a non-wholly owned subsidiary of HAECO incorporated in the PRC, whose principal activity is the provision of overhaul and maintenance services for commercial aircraft.
Taikoo Landing Gear	Taikoo (Xiamen) Landing Gear Services Co., Ltd., a non-wholly owned subsidiary of HAECO incorporated in the PRC, whose principal activity is the provision of repair, overhaul and support services of landing gears of civil aircraft.
Transactions	The provision of the Services by HAECO Group to Cathay Pacific Group pursuant to the Framework Agreement and the Relevant Agreements.

Hong Kong Aircraft Engineering Company Limited

(Incorporated in Hong Kong with limited liability)

Executive Directors

C.D. Pratt (Chairman)
P.K. Chan
J.C.G. Bremridge
M. Hayman
M.M.S. Low
M.J.A. Sathianathan

Registered Office:

35th Floor
Two Pacific Place
88 Queensway
Hong Kong

Non- Executive Directors

M. Cubbon
C.P. Gibbs
D.C.Y. Ho
P.A. Johansen
A.N. Tyler
The Hon. Sir Michael Kadoorie (Alternate Director to D.C.L. Tong)

Independent Non-Executive Directors

R.E. Adams
J.S. Dickson Leach
A.K.Y. Lam
L.K.K. Leong
D.C.L. Tong

To the Shareholders

5th June 2007

Dear Sir or Madam,

**Continuing Connected Transactions
Aircraft Maintenance**

INTRODUCTION

Reference is made to the Company's announcement dated 21st May 2007 regarding the Transactions relating to the Framework Agreement between HAECO and Cathay Pacific dated 21st May 2007, pursuant to which HAECO Group provides the Services to Cathay Pacific Group for maintenance of Cathay Pacific Group's aircraft for a term of 10 years ending on 31st December 2016.

The purposes of this circular are:

- (a) to provide you with further information relating to the Framework Agreement and the Transactions and other information required by the Listing Rules;
- (b) to set out the letter of advice from ING Bank N.V. to the Independent Board Committee and the Independent Shareholders and the recommendation and opinion of the Independent Board Committee as advised by ING Bank N.V.; and

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- (c) to give you notice of the EGM to consider and, if thought fit, to approve the Framework Agreement, its term and the Transactions (including the annual caps).

Framework Agreement dated 21st May 2007

Parties: (1) HAECO
(2) Cathay Pacific

Pursuant to the Framework Agreement, HAECO Group provides the Services to Cathay Pacific Group for maintenance of Cathay Pacific Group's aircraft.

The Framework Agreement is for a term of 10 years ending on 31st December 2016. A duration of 10 years for the Framework Agreement is required in order for HAECO Group to maintain necessary facilities, components and spare parts for providing the Services to Cathay Pacific Group cost-effectively. Since the term of Framework Agreement is for 10 years, ING Bank N.V. has been appointed as Independent Financial Adviser to comment on the duration of the Framework Agreement and their comments are set out in the letter from the Independent Financial Adviser contained in this circular. The Framework Agreement incorporates the Relevant Agreements between Cathay Pacific Group and HAECO Group and provides for a framework under which a Relevant Agreement is entered, renewed or extended. In particular, the Framework Agreement also provides for the entry, renewal or extension of a Relevant Agreement between Cathay Pacific Group and HAECO Group for a term or successive terms expiring on or before 31st December 2016.

The terms of the Framework Agreement are consistent with normal business practices. A party may terminate the Framework Agreement with immediate effect by notice to the other party in the event of material default by that other party. In the event of termination of the Framework Agreement, all the rights and obligations of the parties under the Framework Agreement shall forthwith cease, but any rights, liabilities or remedies arising prior to such termination shall not be affected.

The terms of the Framework Agreement, including the charges for the Services determined by reference to the respective types of aircraft, parts and components and technical standards required, have been arrived at after negotiations at an arm's length on normal commercial terms.

Payment shall be made in cash by Cathay Pacific Group to HAECO Group within 30 days upon receipt of the invoice.

The Services

The Services are provided under the following Relevant Agreements:

- (1) Total Care Package Contract dated 9th September 2004 between HAECO and AHK, pursuant to which HAECO published announcements dated 13th September 2004, 16th February 2006 and 14th February 2007;
- (2) Line Maintenance Contract dated 9th September 2004 between HAECO and AHK, pursuant to which HAECO published announcements dated 13th September 2004, 16th

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February 2006 and 14th February 2007;

- (3) HAECO Service Agreement dated 10th November 2005 between Cathay Pacific and HAECO, pursuant to which Cathay Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to shareholders dated 22nd November 2005;
- (4) TAECO Service Agreement dated 10th November 2005 between Cathay Pacific and TAECO, pursuant to which Cathay Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to shareholders dated 22nd November 2005;
- (5) TAECO Line Maintenance Agreement dated 10th November 2005 between Cathay Pacific and TAECO, pursuant to which Cathay Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to shareholders dated 22nd November 2005; and/or
- (6) any further agreements entered into between Cathay Pacific Group and HAECO Group in respect of maintenance of aircraft, parts or components from time to time.

The Services include, but are not limited to, the following:

- (1) the provision by HAECO to AHK of a total care package for AHK's fleet, including acquisition of an inventory of rotatable and repairable spares for leasing to AHK and providing management, logistic support and maintenance to this inventory;
- (2) the provision by HAECO of line maintenance services for AHK's fleet at HKIA, including 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;
- (3) the provision by HAECO to Cathay Pacific Group of: LM Services for aircraft visiting HKIA; BM Services at HKIA; comprehensive stores and logistics support services comprising receiving / inspection, warehousing, distribution, import / export services; material supply; CAO Services; and Engineering Services; and/or
- (4) the provision by TAECO to Cathay Pacific Group of: store facilities, material supply, BM Services at Xiamen, Engineering Services, LM Services for aircraft visiting Xiamen and such other airports as Cathay Pacific Group and TAECO shall from time to time agree.

The annual caps

The annual caps for the Transactions have been determined by reference to the actual amounts of the Services in the four years ended 31st December 2006 set out below, the forecast payments for the Services to be provided by HAECO Group to Cathay Pacific Group in the 10 years ending 31st December 2016 and the projections of Cathay Pacific Group in respect of the fleet size, annual aircraft utilisation and other operating parameters, taking into account that 36 aircraft are under firm orders for delivery from 2007 to 2010. In addition, a cushion of 30% has been added to provide flexibility for possible changes in the level of Services associated with the growth and the scheduled and possible unscheduled maintenance of the aircraft of Cathay

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Pacific Group. The Directors estimate that the amounts payable for the Services in respect of aircraft maintenance for the 10 years ending 31st December 2016 will not exceed the annual caps set out below, which consolidates and replaces the annual caps previously set for the Transactions.

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	
(HK\$ million)	Actual	Actual	Actual	Actual	
Services	1,227	1,345	1,476	1,627	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
(HK\$ million)	Cap	Cap	Cap	Cap	Cap
Services	3,000	3,300	3,630	3,993	4,393
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
(HK\$ million)	Cap	Cap	Cap	Cap	Cap
Services	4,832	5,315	5,846	6,431	7,075

Reasons for, and benefits of, the Transactions

The Transactions form part of the normal commercial activities of HAECO Group in the ordinary course of their businesses and it is expected that they will make substantial contribution to HAECO Group's revenue and profitability. In 2006, sales to Cathay Pacific accounted for 41% of the turnover of HAECO Group.

Connection between the parties

Cathay Pacific holds 27.45% of the issued share capital of HAECO and is therefore its substantial shareholder and a connected person of HAECO under the Listing Rules.

Compliance with the Listing Rules

As 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 Transactions will, on an annual basis, be more than 2.5%, the Company has to comply with the announcement, reporting and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Independent Board Committee has been constituted to advise the Independent Shareholders in respect of the resolution to approve the Framework Agreement, its term and the Transactions (including the annual caps). ING Bank N.V. has been appointed as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

The Company will convene an EGM to consider and, if thought fit, to approve the Framework Agreement, its term and the Transactions (including the annual caps). Voting will be by poll and Cathay Pacific and its substantial shareholder Swire will abstain from voting.

The Company will comply with the continuing obligations under Rules 14A.37-41 of the Listing Rules and will re-comply with the relevant Listing Rules after 31st December 2016 or if the

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annual caps are exceeded or when there is a material change to the terms of the Framework Agreement.

EGM

There is set out on page 28 a notice convening the EGM to be held on Friday, 29th June 2007 at 11:00 a.m. at the Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong, at which a resolution will be proposed to the Independent Shareholders to approve the Framework Agreement, its term and the Transactions (including the annual caps). The vote of the Independent Shareholders at the EGM will be taken by poll.

As at the Latest Practicable Date, Cathay Pacific held a 27.45% shareholding in HAECO and Swire held a 39.92% shareholding in Cathay Pacific and a 32.80% shareholding in HAECO. In accordance with the Listing Rules, Cathay Pacific and Swire and their associates will abstain from voting on the resolution to approve the Framework Agreement, its term and the Transactions (including annual caps) at the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

Recommendation

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 10 of this circular which contains its recommendation to the Independent Shareholders concerning the Transactions; and (ii) the letter from ING Bank N.V. set out on pages 11 to 22 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons considered by them in formulating their advice.

Additional information

Your attention is also drawn to the information set out in the appendix to this circular and the notice of the EGM set out in this circular.

By order of the Board
**Hong Kong Aircraft Engineering
Company Limited**
Christopher Pratt
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

5th June 2007

To the Independent Shareholders

Dear Sir or Madam,

**Continuing Connected Transactions
Aircraft Maintenance**

We refer to the circular dated 5th June 2007 of the Company (the "Circular") of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Framework Agreement, its term and the Transactions (including the annual caps) and to advise the Independent Shareholders whether, in our opinion, such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. ING Bank N.V. has been appointed to advise the Independent Board Committee and the Independent Shareholders.

We wish to draw your attention to the letter from the Board set out on pages 5 to 9 of the Circular which contains, inter alia, information on the Framework Agreement, its term and the Transactions (including the annual caps), and the letter of advice from ING Bank N.V. set out on pages 11 to 22 of the Circular.

Having taken into account the advice of ING Bank N.V., we consider that the terms of the Framework Agreement, its term and the Transactions (including the annual caps) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
The Independent Board Committee
R.E. Adams
J.S. Dickson Leach
A.K.Y. Lam
L.K.K. Leong
D.C.L. Tong
Independent Non-Executive Directors

The following is the text of a letter received from ING Bank N.V. setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions for inclusion in this Circular.



39/F One International Finance Centre
1 Harbour View Street, Central
Hong Kong

5th June 2007

The Independent Board Committee and the Independent Shareholders of
Hong Kong Aircraft Engineering Company Limited
35th Floor, Two Pacific Place
88 Queensway
Hong Kong

Dear Sirs,

Continuing Connected Transactions Aircraft Maintenance

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement and the annual caps set out in Section 3 of this letter ("Annual Caps"), details of which are set out in the circular dated 5th June 2007 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

The Directors announced on 21st May 2007 that HAECO and Cathay Pacific have entered into the Framework Agreement on 21st May 2007 for HAECO Group to provide the Services to Cathay Pacific Group for maintenance of Cathay Pacific Group's aircraft for a term of 10 years ending on 31st December 2016.

Cathay Pacific holds 27.45% of the issued share capital of HAECO and is therefore its substantial shareholder and a connected person of HAECO under the Listing Rules. As 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 annual caps of the Transactions will, on an annual basis, be more than 2.5%, the Company has to comply with the announcement, reporting and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

ING Bank N.V. is independent from and not connected with HAECO or any of its substantial shareholders, directors or chief executive, or any of their respective associates, and is accordingly qualified to give independent advice to the Independent Board Committee and the Independent Shareholders.

We were neither a party to the negotiations entered into by HAECO in relation to the Framework Agreement, nor were we involved in the deliberations leading up to the decision of the Directors to enter into the Framework Agreement as contemplated. We do not, by this letter, warrant the merits of the Framework Agreement, other than to form an opinion, for the purpose of Chapter 14A of the Listing Rules, on whether the Framework Agreement, its term and the transactions under the Existing Agreements and the Annual Caps are fair and reasonable, and that the entering into of the Framework Agreement is in the ordinary and usual course of business, on normal commercial terms, and in the interests of HAECO and the Shareholders as a whole.

In formulating our recommendation, we have relied on the statements, information and representations provided by the management of HAECO. We have assumed that all such statements, information and representations contained or referred to in the Circular provided by the management of HAECO and for which the Directors have collectively and individually accepted full responsibility, are true, accurate, and complete in all material respects at the time they were made and continue to be so at the date hereof.

We have also relied on our discussions with the Directors and members of the management of HAECO regarding the statements, information and representations contained in the Circular. We have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular. The Directors have further confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading in any material respects.

We consider that we have reviewed sufficient information to reach an informed view and to justify relying on the accuracy of the information contained in the Circular to provide a reasonable basis for our advice. We are not aware of, and have no reason to suspect that, any facts or circumstances which would render the information provided or the representations made to us untrue, inaccurate or misleading in any material respects, nor do we suspect that any material facts have been omitted or withheld from the information supplied in the Circular. We have not, however, carried out any independent verification of the information provided to us by HAECO, or conducted any in-depth investigation into the business and affairs of the Group and their respective associates.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Framework Agreement, its term and the transactions under the Existing Agreements and the Annual Caps, we have taken into account the following principal factors:

1. Historical relationship between HAECO Group and Cathay Pacific Group

HAECO Group is one of the world's leading aeronautical engineering groups which is engaged in the maintenance, modification, repair and overhaul of commercial aircraft and

LETTER FROM ING BANK N.V.

their components. HAECO is principally based at the HKIA, where it provides maintenance services to the majority of airlines operating at HKIA. HAECO's Hong Kong operations comprise heavy maintenance at hangars and line maintenance at the passenger and cargo terminals at HKIA as well as component overhaul at Tseung Kwan O and inventory technical management services. TAECO, which is held 56.6% by HAECO, is located in Xiamen and principally provides heavy maintenance on Boeing and Airbus aircraft models and offers passenger to freighter aircraft conversion programmes on B747-200/300/400 models using its four double wide-body bay hangars at Xiamen Gaoqi International Airport. Currently, TAECO also provides line maintenance services in Beijing, Shanghai and Xiamen.

The principal activity of Cathay Pacific Group is the operation of scheduled airline services which are principally to and from Hong Kong. Cathay Pacific Group is also engaged in other related services, including airline catering, aircraft handling and engineering. Cathay Pacific Group operates its fleet through Cathay Pacific, Dragonair (which became a wholly owned subsidiary of Cathay Pacific in September 2006), and AHK which is held 60% by Cathay Pacific.

As advised by HAECO, HAECO Group has a long and successful relationship with Cathay Pacific in the aviation industry. Cathay Pacific's fleet has been maintained by HAECO for over 57 years and also by TAECO since 1996. HAECO has provided a total care package for AHK's fleet of Airbus 300-600 freighters and LM Services for AHK's fleet at HKIA since 2004. HAECO Group currently provides the Services to AHK and Cathay Pacific under the following five agreements (the "Existing Agreements"):

- (1) the Total Care Package Contract dated 9th September 2004 between HAECO and AHK, pursuant to which HAECO published announcements dated 13th September 2004, 16th February 2006 and 14th February 2007;
- (2) the Line Maintenance Contract dated 9th September 2004 between HAECO and AHK, pursuant to which HAECO published announcements dated 13th September 2004, 16th February 2006 and 14th February 2007;
- (3) the HAECO Service Agreement dated 10th November 2005 between Cathay Pacific and HAECO, pursuant to which Cathay Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to their respective shareholders dated 22nd November 2005;
- (4) the TAECO Service Agreement dated 10th November 2005 between Cathay Pacific and TAECO, pursuant to which Cathay Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to their respective shareholders dated 22nd November 2005; and
- (5) the TAECO Line Maintenance Agreement dated 10th November 2005 between Cathay Pacific and TAECO, pursuant to which Cathay Pacific and HAECO published announcements dated 10th November 2005 and dispatched circulars to shareholders dated 22nd November 2005.

The Existing Agreements between HAECO and AHK in respect of the Total Care Package Contract (number 1 above) and the Line Maintenance Contract (number 2 above) will

expire in September 2012 and 2009 respectively, whilst the Existing Agreements of HAECO and TAECO with Cathay Pacific will expire in December 2007.

A significant portion of the turnover of HAECO Group is generated from Cathay Pacific Group. Sales to Cathay Pacific accounted for 46% and 36.7% of the turnover of HAECO Group in 2004 and 2005 respectively. Sales to Cathay Pacific and Dragonair accounted for 41.0% of the turnover of HAECO Group in 2006.

2. The Framework Agreement

2.1 Terms and Services

HAECO has entered into the Framework Agreement with Cathay Pacific for HAECO Group to provide the Services to Cathay Pacific Group for maintenance of Cathay Pacific Group's aircraft for a term of 10 years ending on 31st December 2016. Pursuant to the Framework Agreement, if any member of HAECO Group agrees to provide any Services to any member of Cathay Pacific Group, that member of HAECO Group and that member of Cathay Pacific Group shall enter into a Relevant Agreement on the following terms:

- (A) any party to any Relevant Agreement may terminate that Relevant Agreement with immediate effect by notice to the other party to that Relevant Agreement in the event of any material default by that other party. In the event of termination of any Relevant Agreement, all the rights and obligations of the parties under that Relevant Agreement shall forthwith cease, but any rights, liabilities or remedies arising prior to such termination shall not be affected;
- (B) charges for the Services shall be determined by reference to the respective types of aircraft, parts and components and the technical standards required; and
- (C) any amount payable by any member of Cathay Pacific Group to any member of HAECO Group under any Relevant Agreement shall be paid by that member of Cathay Pacific Group to that member of HAECO Group in cash within 30 days upon receipt by that member of Cathay Pacific Group of the invoice from that member of HAECO Group.

Each of the Existing Agreements is deemed to be a Relevant Agreement and any further agreements entered into between Cathay Pacific Group and HAECO Group in respect of maintenance of aircraft, parts or components from time to time will also be a Relevant Agreement. The Framework Agreement provides for a framework under which a Relevant Agreement is entered into, renewed or extended. In particular, the Framework Agreement also provides for the entry, renewal or extension of a Relevant Agreement between Cathay Pacific Group and HAECO Group for a term or successive terms expiring on or before 31st December 2016.

We note from the Directors that the Services include, but are not limited to, the following:

- (1) the provision by HAECO to AHK of a total care package for AHK's fleet, including acquisition of an inventory of rotatable and repairable spares for leasing to AHK and providing management, logistics support and maintenance to this inventory;
- (2) the provision by HAECO of line maintenance services for AHK's fleet at HKIA, including routine maintenance checks, 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;
- (3) the provision by HAECO to Cathay Pacific Group of LM Services for aircraft visiting HKIA; BM Services at HKIA; comprehensive stores and logistics support services comprising receiving / inspection, warehousing, distribution, import / export services; material supplies; CAO Services; and Engineering Services; and/or
- (4) the provision by TAECO to Cathay Pacific Group of store facilities, material supplies, BM Services at Xiamen, Engineering Services, LM Services for aircraft visiting Xiamen and such other airports as Cathay Pacific Group and TAECO shall from time to time agree.

In general, total care package is the provision of access and availability to a range of components to the customer's fleet to support its operations. Line maintenance services refer to the related maintenance services performed during normal transit, routine turnaround or scheduled layover periods, which are necessary to ensure the airworthiness and safety of an aircraft for the next flight. Base maintenance services refer to heavy maintenance services such as major structural and avionics modifications, cabin refurbishment and painting services which require the use of hangars.

2.2 The term of Framework Agreement

We note that the Framework Agreement is for a term of 10 years which exceeds the three year term as set out in the Listing Rules. Pursuant to Rule 14A.35 of the Listing Rules, the period of agreement for non-exempt continuing connected transactions, except in special circumstances, must not exceed 3 years. As mentioned above, the Framework Agreement provides for the entering into, renewal or extension of a Relevant Agreement between members of Cathay Pacific Group and HAECO Group for a term or successive terms expiring on or before 31st December 2016.

We have identified three other similar aircraft maintenance or component agreements provided by other aircraft maintenance companies in the past three years, which in our opinion, are comparable on the basis that:

- (a) the services provided involving provision of line, light and base maintenance, maintenance operations control, engineering and technical services, component support, engine maintenance and logistic management are similar to the Services under the Framework Agreement; and

- (b) the comparable companies are of international reputation and expertise in the aeronautical engineering industry.

We note the agreements between (i) SR Technics and Sama Airline in connection with integrated technical airline solutions; (ii) KLM Engineering & Maintenance and Jade Cargo International in connection with overall aircraft maintenance support; and (iii) SIA Engineering Company and Tiger Airways in connection with maintenance, repair and overhaul services all have a term of between 5 and 10 years.

We have discussed with the Directors and understand that HAECO does not have similar long term contracts with any third parties although many of these are airlines based outside of Hong Kong. Given that (i) HAECO Group can secure a long term contract with a reputable customer to whom it has been providing Services for more than 57 years; (ii) sales to Cathay Pacific Group accounts for a significant portion of HAECO Group's sales; (iii) both HAECO and Cathay Pacific consider that a Framework Agreement with a duration of 10 years would be required for HAECO Group to operate in a cost effective manner in terms of maintaining necessary facilities, components and spare parts; and (iv) the term of the Framework Agreement is within the range of contract durations of other similar maintenance contracts in the industry, we confirm that it is normal business practice for the Framework Agreement to have a term of 10 years.

2.3 Pricing basis

The Framework Agreement provides that charges for the Services are determined by reference to the respective types of aircraft, parts and components and technical standards required.

The following sets out the basis for pricing the Services under the Existing Agreements:

<u>Type of Services</u>	<u>Pricing Basis</u>
BM Services	time and materials
CAO Services	time and materials or fixed prices
Engineering Services	time
LM Services	fixed price per aircraft movement / fixed prices for routine packages / time and materials for other work
Material supply	materials
Stores and logistics support	monthly fixed prices
Store facilities	monthly fixed prices
Total care package	fixed monthly fee/ repair charge per flying hour

As advised by the Directors, the pricing basis of the Services is in line with industry standards. The Directors also confirm that the charges for the Services provided by HAECO Group to independent third parties are also determined by reference to the respective types of aircraft, parts and components and the technical standards required. Details of the pricing bases are set out as follows:

- Time

Charges are determined by the number of skilled and unskilled manhours booked by HAECO Group. Charges vary depending on the type of work and location.

- Materials

Charges are determined by adding a percentage mark-up to the costs of materials supplied by HAECO Group.

- Unit or monthly fixed prices

In respect of LM Services, charges are based on the number of movements or routine packages. Charges vary depending on the location. In respect of stores and logistics, monthly fixed prices, which vary depending on location, apply. In respect of CAO Services for component overhaul or repair, charges are based on time and materials or fixed prices per unit overhaul. In respect of total care packages, charges are based on fixed monthly fee and repair charges per flying hours.

We note that the Framework Agreement does not impact the current pricing levels in the Existing Agreements. When the Existing Agreements are extended or new Relevant Agreements are entered into, the pricing levels will be determined by the Directors with reference to the pricing basis as described in the Framework Agreement. We also note that, under Listing Rule 14A.37, the independent non-executive Directors are required to review the Framework Agreement each year and confirm in the annual report, among others, that Transactions pursuant to the Framework Agreement have been entered into either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties demanding similar business volume.

2.4 Payment

The Framework Agreement provides that any amount payable by any member of Cathay Pacific Group to any member of HAECO Group under any Relevant Agreement shall be paid by such member of Cathay Pacific Group to such member of HAECO Group in cash within 30 days upon receipt of invoice.

We note that the payment term is broadly in line with the Existing Agreements. Under the Existing Agreements of HAECO and TAECO with Cathay Pacific, charges payable in respect of Services performed in accordance with LM Services shall be invoiced and paid as follows: (a) the provisional fixed price shall be invoiced in 12 equal instalments; (b) reconciliation of the fixed price shall be invoiced annually and paid within 30 days of

invoices; and (c) exceptional items, additional charges, and ad hoc charges shall be invoiced monthly and paid within 30 days upon receipt of the invoice. Charges in respect of: (a) store and logistics services; (b) material supply; (c) CAO Services; (d) BM Services; and (e) Engineering Services shall be paid within 30 days upon receipt of the invoice. As for the Existing Agreements of HAECO with AHK, charges are payable in one lump sum within 30 days after receipt of a properly detailed invoice from HAECO.

The Framework Agreement provides that in the case of any inconsistency between the terms of a Relevant Agreement and the terms of the Framework Agreement, the former shall prevail.

We understand from the management of the Company that the payment terms offered by HAECO to other customers are typically 30 days or more.

The Directors have confirmed that the terms of the Framework Agreement, including the charges for the Services determined by reference to the respective types of aircraft, parts and components and technical standards required, have been arrived at after negotiations at an arm's length on normal commercial terms. The Directors have also confirmed that the terms of the Framework Agreement and the Existing Agreements are no more favourable to Cathay Pacific Group than those which the Company would offer to parties which are not connected persons (as defined under the Listing Rules) of HAECO for a similar scope and volume of work.

Taking into consideration the above factors, we are of the opinion that the terms of the Framework Agreement are fair and reasonable.

3. Basis of the Annual Caps

3.1 Reasons for the Annual Caps

HAECO is the major aircraft maintenance company operating out of HKIA, able to offer both line and base maintenance services, a comprehensive package covering transit and technical services with full hangar support at HKIA. We note that HAECO is serving the majority of airline operators at HKIA.

As set out in the letter from the Board, the actual payments for the Services for the four years ended 31st December 2006, and the Annual Caps set out below for each of the ten years ending 31st December 2016, which consolidate and replace the annual caps previously set for the Transactions, are set out in Table (1).

3.2 Basis of the Annual Caps

In determining whether the Annual Caps proposed by the Company are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, we have reviewed and discussed with the Directors the basis for setting the respective Annual Caps.

We have discussed with the Directors and note that the proposed Annual Caps are determined based on (i) the actual historical annual amounts of the Services in the four years ended 31st December 2006; (ii) the internal projections of Cathay Pacific Group in respect of its fleet size, annual aircraft utilisation and other operating parameters, taking into account that 36 aircraft are under firm orders for delivery from 2007 to 2010; (iii) a reasonable provision in the Annual Caps; and (iv) increased capacity in HAECO Group.

Table (1): Historical annual amounts of the Services from 2003 to 2006 and Projected Annual Caps from 2007 to 2016

Year (Actual / Forecast)	Amount (HK\$ million)	% increase
2003A	1,227	9.6%
2004A	1,345	9.7%
2005A	1,476	10.2%
2006A	1,627	84.4%
2007F	3,000	10.0%
2008F	3,300	10.0%
2009F	3,630	10.0%
2010F	3,993	10.0%
2011F	4,393	10.0%
2012F	4,832	10.0%
2013F	5,315	10.0%
2014F	5,846	10.0%
2015F	6,431	10.0%
2016F	7,075	10.0%

3.2.1 Cathay Pacific Group's existing business

Cathay Pacific is a major airline offering both cargo and passenger services to various destinations around the world. In accordance with Cathay Pacific's 2006 annual report, passenger capacity increased by 10.9% in 2006 as compared to 2005. In addition, Cathay Pacific Group's cargo revenue also increased by 10.9% in 2006 as compared to 2005 as a result of the continued growth in demand from Europe, Japan and the United States for goods manufactured in Mainland China exported via Hong Kong. In 2006, the fleets of Cathay Pacific, Dragonair and AHK continued to grow with additions of 6, 4 and 2 aircraft respectively. In June 2006, Cathay Pacific placed orders for 2 Boeing 777-300ER aircraft and 6 Boeing 747-400ERF freighters.

Cathay Pacific has also operated more frequent services to Adelaide, Bahrain, Dubai, Rome, etc. and new codeshare services with other airline operators to various destinations around the world, which has increased aircraft utilisation and further strengthened Hong Kong as a global aviation hub.

3.2.2 Analysis of the projected Annual Caps of the Services

We note that there is an 84.4% increase in the Annual Cap of the Services for 2007 as compared to the actual amount for 2006. We have discussed with the Directors and note that such increase was mainly attributable to potential increase in business volume from Cathay Pacific Group and its growing fleet.

As advised by the Directors, Cathay Pacific Group and HAECO Group continue to discuss potential business co-operations which could further increase volumes relative to current levels.

We have discussed with the Directors and note that Cathay Pacific's fleet has increased to 102 aircraft as at 31st December 2006 (31st December 2005: 96 aircraft). We note that Cathay Pacific has ordered 32 aircraft and amongst the aircraft under firm order, 10 aircraft are to be delivered in 2007, 11 aircraft in 2008 and 11 aircraft in 2009 and beyond. We understand from the Directors that certain delivered aircraft are required to be reconfigured and all aircraft are subject to inspection by Cathay Pacific prior to entering into service. As such, the Directors estimated that Cathay Pacific would have 112 aircraft (including the aircraft scheduled to be delivered and leased during 2007) in operation by the end of 2007. The Directors expect that Cathay Pacific's fleet would increase to 120 aircraft by the end of 2008 (given that three A340-600 aircraft will be returned in 2008 when their leases expire), representing an increase of 17.6% from 31st December 2006.

Dragonair became a wholly owned subsidiary of Cathay Pacific in September 2006. It took delivery of 3 Airbus A330-300 aircraft and 1 Boeing 747-400BCF freighter in 2006 and expanded its fleet size to 37 aircraft as at the end of 2006. In 2007, Dragonair is expected to take delivery of 3 additional aircraft.

AHK took delivery of 2 Airbus A300-600F freighters in 2006 and expanded its fleet size to 8 freighters as at the end of 2006.

3.2.3 Reasonable provision in Annual Caps

Given that the annual amounts of the Services increased by approximately 10% per annum in 2003 to 2006, we consider a 10% annual increase in the Annual Caps post the 2007 adjustment until 2016 to provide for possible changes in the level of Services associated with the growth and scheduled and unscheduled maintenance for Cathay Pacific Group's aircraft reasonable.

The Company will re-comply with the relevant Listing Rules if the Annual Caps are exceeded.

3.2.4 Capacity of HAECO Group

We note from HAECO's 2006 annual report that, as a result of the growth of air traffic in Hong Kong and hence the demand for aircraft maintenance work, HAECO commissioned its second hangar at HKIA in December 2006. HAECO has entered into an agreement with the Hong Kong Airport Authority to lease additional land at HKIA and to extend its franchise to 2036. This will allow HAECO to build an additional hangar which is planned to start operation in the first half of 2009 and provide additional space for a further hangar at a later date.

TAECO is building a fifth double wide-body bay hangar which is planned to open in mid 2007 and a sixth hangar which is planned to open in the first quarter of 2009 to provide for the strong demand in China and overseas.

We would also observe that a higher cap is generally in the interests of HAECO and its shareholders as it allows for either a greater volume of business with Cathay Pacific Group or higher pricing, both of which are in the interests of the Company and its shareholders.

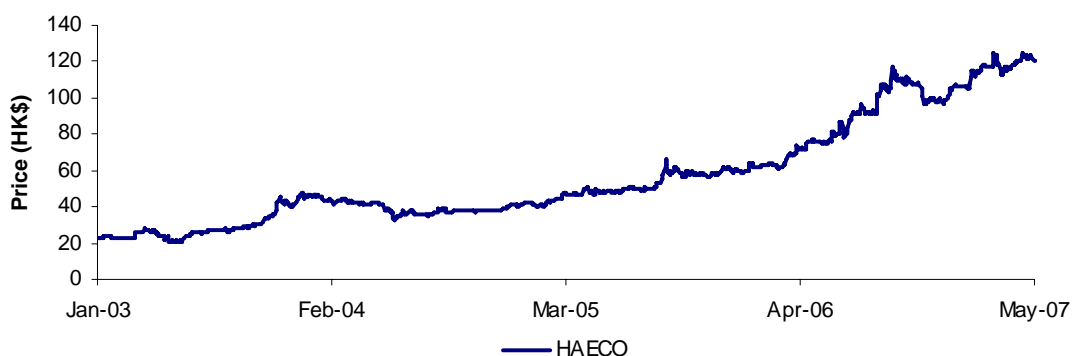
4. Financial and share performance of HAECO

For the last four years, turnover and profit attributable to HAECO's shareholders registered compound annual growth rates of 24.5% and 34.9%, respectively. These in turn have positively impacted the share price of HAECO as shown below. We believe these are partly attributable to HAECO Group's strong and stable business relationship with Cathay Pacific Group. The Framework Agreement will provide for the entry, renewal or extension of the Relevant Agreements to continue this relationship for a term of 10 years.

Table (2): Revenue and Net Profit of HAECO Group

For the year ended 31 December	Revenue (HK\$ million)	Profit attributable to Shareholders (HK\$ million)
2003	1,992	345
2004	2,134	438
2005	3,121	618
2006	3,844	847

Chart (a): Share Price Performance of HAECO from 1 January 2003 to 29 May 2007



CONCLUSIONS AND RECOMMENDATION

Having analysed and considered the principal factors as set out in our letter above, we would draw your attention to the following key factors, which should be read in conjunction with and interpreted in the full context of the Circular, in arriving at our conclusion:

- (i) Cathay Pacific Group's aircraft fleet has been maintained by HAECO Group for more than 57 years. Cathay Pacific Group will remain as a major customer of the Group and continue to make a substantial contribution to the revenue of the Group. Both HAECO and Cathay Pacific consider that a Framework Agreement with duration of 10 years would

LETTER FROM ING BANK N.V.

be required for HAECO Group to operate in a cost effective manner in terms of maintaining necessary facilities, components and spare parts;

- (ii) Charges for the Services under the Framework Agreement are determined by reference to the respective types of aircraft, parts and components and technical standards required and is in line with industry standards as well as those provided by HAECO Group to independent third parties;
- (iii) Payment terms of 30 days in cash upon receipt by the relevant member of Cathay Pacific Group of the invoice from the relevant member of HAECO Group is broadly in line with the Existing Agreements;
- (iv) the Directors' confirmation that the terms of the Framework Agreement, including the charges for the Services determined by reference to the respective types of aircraft, parts and components and technical standards required, have been arrived at after negotiations at an arm's length on normal commercial terms. The Framework Agreement, its term, the transactions under the Existing Agreements and the Annual Caps are entered into on terms no more favourable to Cathay Pacific Group than those the Company would offer to independent third parties demanding similar business volume;
- (v) the Annual Caps have been determined by reference to the actual and forecast payments and the projections provided by Cathay Pacific Group in respect of its fleet size, annual aircraft utilisation and other operating parameters, a reasonable provision and increased capacity in HAECO Group; and
- (vi) the independent non-executive Directors are required to review the Framework Agreement each year and confirm that Transactions pursuant to the Framework Agreement have been entered into either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties.

Based on the above, we are of the opinion that the Framework Agreement, its term and the transactions under the Existing Agreements and the Annual Caps are fair and reasonable and that the entering into of the Framework Agreement is in the ordinary and usual course of business, on normal commercial terms and in the interests of HAECO and the Shareholders as a whole so far as HAECO and the Independent Shareholders are concerned. Accordingly, we would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
For and on behalf of
ING Bank N.V.
Malcolm E.O. Brown
Managing Director

RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December 2006, being the date to which the latest published audited accounts of the Company were made up.

DISCLOSURE OF INTERESTS**(a) Share Interests of Directors and Chief Executive**

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated company (within the meaning of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Interests in shares of HAECO

Name of Director	Capacity	Long or short position	Number of ordinary shares in the Company	Percentage of issued capital
The Hon. Sir Michael Kadoorie (Alternate Director)	Trust (Note 1)	Long position	3,782,886	2.27%
J.S. Dickson Leach	Personal	Long position	124,800	0.08%
D.C.L. Tong	Personal	Long position	20,000	0.01%

Interests in shares of TAECO

Name of Director	Capacity	Long or short position	Percentage of issued capital
P.K. Chan	Controlled corporation (Note 2)	Long position	2.00%

Note:

- (1) The Hon. Sir Michael 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.

(b) Substantial shareholders

Save as disclosed below, the Directors and chief executive of the Company are not aware that there was any party who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Interests in shares of HAECO

Name	Number of ordinary shares	Long or short position	Percentage of issued capital
Cathay Pacific Airways Limited	45,649,686	Long position	27.45%
Swire Pacific Limited (Note 1)	100,200,303	Long position	60.24%
John Swire & Sons Limited (Note 2)	100,200,303	Long position	60.24%
Marathon Asset Management Limited	9,742,130	Long position	5.86%

Note: As at the Latest Practicable Date,

- (1) Swire Pacific Limited was interested in 54,550,617 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 approximately 39.92% interest in Cathay Pacific Airways Limited;

- (2) John Swire & Sons Limited and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 100,200,303 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the John Swire & Sons Limited group's direct or indirect interests in shares of Swire Pacific Limited representing approximately 34.16% of the issued share capital and approximately 54.73% of the voting rights.

(c) Substantial shareholders in the Company's subsidiaries

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons were interested in 10% or more of the issued capital carrying rights to vote at general meetings of the following subsidiaries of the Company:

Name of subsidiary	Name of shareholder	Number and class of shares held	Percentage of shareholding
South China Aero Technology Limited	China National Aero Technology Import and Export Corporation	200,000 ordinary shares	40%
Taikoo (Xiamen) Aircraft Engineering Company Limited	Xiamen Aviation Industry Company	10% of registered capital	10%

(d) Other interests of Directors

J.C.G. Bremridge, M. Cubbon, D.C.Y. Ho, P.A. Johansen, M.M.S. Low, C.D. Pratt and A.N. Tyler are directors and/or employees of the John Swire & Sons Limited group ("Swire Group"). M. Cubbon, D.C.Y. Ho, P.A. Johansen and C.D. Pratt are directors of Swire. M. Cubbon, D.C.Y. Ho, C.D. Pratt and A.N. Tyler are directors of Cathay Pacific, and C.P. Gibbs is also an employee of Cathay Pacific. John Swire & Sons Limited, Swire and Cathay Pacific are substantial shareholders of the Company, as noted above.

The Company has an agreement for services (the "JSS Agreement") with John Swire & Sons (H.K.) Limited ("JSSHK"), pursuant to which JSSHK provides advice and expertise of the directors and senior officers of the Swire Group, full or part time services of members of the staff of the Swire Group, other administrative and similar services and such other services as may have been agreed from time to time.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and minority interests after certain adjustments. The Company also reimburses the Swire Group for all the expenses incurred in the provision of the services at cost.

The JSS Agreement took effect from 1st January 2005 and will terminate on 31st December 2007. However it is renewable for successive periods of three years thereafter unless either

party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

As directors and employees of the Swire Group, J.C.G. Bremridge, M. Cubbon, D.C.Y. Ho, P.A. Johansen, M.M.S. Low, C.D. Pratt and A.N. Tyler are interested in the JSS Agreement, and in the case of P.A. Johansen also as a shareholder.

(e) Interests in assets

As at the Latest Practicable Date, none of the Directors and the expert whose name is referred to in the paragraph headed "Consent and Expert" in this appendix has or has had any interest, direct or indirect, in any assets which have been, since 31st December 2006, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(f) Service contracts

No Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

CONSENT AND EXPERT

ING Bank N.V. has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter as set out in this Circular and references to its name in the form and context in which they respectively appear in this Circular.

QUALIFICATION OF EXPERT

The following is the qualification of the expert which has given its opinion or advice which is contained in this Circular:

Name	ING Bank N.V.
Qualification	A registered institution under the SFO, registered for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities.

ING Bank N.V. has confirmed to the Company that as at the Latest Practicable Date, ING Bank N.V. did not have any shareholding interest, directly or indirectly, in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate any person to subscribe for securities in any members of the Group.

DOCUMENT AVAILABLE FOR INSPECTION

Copies of the Framework Agreement and the Relevant Agreements are available for inspection by Shareholders during normal business hours at the registered office of the Company at 35th Floor, Two Pacific Place, 88 Queensway, Hong Kong on weekdays other than public holidays up to and including 29th June 2007.

POLL PROCEDURE

Under the articles of association of the Company, at any general meeting, on a show of hands every member present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every fully paid up share of which he is the holder. A resolution put to the vote of a meeting shall be decided on a show of hands unless, before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll, a poll is duly demanded. Article 72 of the Company's articles of association provides that, subject to the provisions of the Companies Ordinance, a poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three members present in person or by proxy and entitled to vote at the meeting; or
- (iii) any member or members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (iv) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong Aircraft Engineering Company Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 44)

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the shareholders of Hong Kong Aircraft Engineering Company Limited will be held at the Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 29th June 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

THAT the entering into of the Framework Agreement by the Company (a copy of which agreement has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification), its term, the Transactions and the annual caps set out below be and are hereby approved (terms defined in the circular to shareholders of the Company dated 5th June 2007 having the same meanings when used in this resolution):

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
(HK\$ million)	Cap	Cap	Cap	Cap	Cap
Services	3,000	3,300	3,630	3,993	4,393
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
(HK\$ million)	Cap	Cap	Cap	Cap	Cap
Services	4,832	5,315	5,846	6,431	7,075

By order of the Board
David Fu
Company Secretary

Hong Kong, 5th June 2007

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. All proxies must be deposited with the Registrars, Computershare Hong Kong Investor Services Limited, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for the meeting or any adjourned meeting thereof.
3. The vote at the Extraordinary General Meeting will be taken by poll.