

# HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)  
(Stock Code: 44)



## **2006 FINAL RESULTS AND CHANGE OF DIRECTORS**

		2006	2005	Change %
Turnover	HK\$ million	3,844	3,121	23.2%
Attributable profit	HK\$ million	847	618	37.0%
Earnings per share	HK\$	5.09	3.72	37.0%
Dividends per share				
- Interim and final dividends	HK\$	2.25	1.60	40.6%
- Special dividend	HK\$	2.50	-	NA

### **CHAIRMAN'S STATEMENT**

#### **Results**

Strong demand for the Group's hangar maintenance services and for the engine overhaul services of its jointly controlled companies resulted in profit attributable to shareholders increasing by 37.0% to HK\$846.8 million.

Your Directors have recommended a final dividend for 2006 of HK\$1.60 per share which, together with the interim dividend of HK\$0.65 per share and a special dividend of HK\$2.50 per share paid on 26th September 2006, results in a total distribution for the year of HK\$4.75 per share.

#### **Investments**

During the year the Company increased its effective interest in Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") by 2% to 56.55% and in Taikoo (Shandong) Aircraft Engineering Limited by 10% to 35.65%.

The Company opened its second hangar at Hong Kong International Airport in December 2006 and has reached agreement with the Hong Kong Airport Authority to build a third hangar and to extend its franchise and leases at the airport to 2036. The third hangar is expected to open in the first half of 2009.

TAECO's fifth and sixth double-bay hangars at Xiamen airport are planned to open in mid 2007 and in the first quarter of 2009 respectively. HAESL is building an extension to its engine build area which is planned to open in early 2008.

The Group expanded its inventory technical management services during the year and has agreed to an investment of HK\$120 million in a new joint venture formed to overhaul landing gear in Xiamen. It continues to look at other opportunities to expand its aviation maintenance and repair services.

#### **Staff**

Rapid growth has required a high level of recruitment with the total staff numbers increasing 23.6% to approximately 10,100 during the year. I would like to welcome the new employees and, on behalf of the shareholders, thank all staff for the hard work which has produced this year's strong results.

## **Outlook**

The Group's prospects are good given the recent increase in hangar capacity, strong demand for its heavy maintenance services and the growth in the fleets of Hong Kong based customers. It will, however, take time to increase the number of fully trained staff to a level which matches the additional capacity and results will be moderated by associated cost increases and the impact of the appreciation of the Renminbi on TAECO's margins.

**Christopher Pratt**

*Chairman*

*Hong Kong, 6th March 2007*

**Hong Kong Aircraft Engineering Company Limited**

## REVIEW OF OPERATIONS

The Company's profit attributable to its shareholders comprises:

	2006	2005	Change
	HK\$M	HK\$M	%
HAECO Hong Kong operations	305	256	19%
Share of:			
TAECO	221	102	117%
HAESL and SAESL	282	229	23%
Other jointly controlled companies	39	31	26%
	<u>847</u>	<u>618</u>	37%

### HAECO Hong Kong Operations

The Company's Hong Kong operations comprise heavy maintenance at hangars and line maintenance at the passenger and cargo terminals at Hong Kong International Airport as well as component overhaul at Tseung Kwan O and inventory technical management services.

The heavy maintenance division provided most of the growth for the Hong Kong operations this year with 1.85 million manhours sold, a 12.8% increase over 2005. Its 1,694 staff (2005: 1,204), provide a comprehensive range of scheduled maintenance checks, modifications and overhaul work on a wide variety of aircraft types. Approximately 61% of the division's work was for airlines based outside Hong Kong. It competes on price, availability of space, turnaround time and quality of workmanship with other Maintenance and Repair Organisations worldwide.

The Company commissioned its second hangar at Hong Kong International Airport in December 2006. This hangar can handle three wide-bodied aircraft simultaneously.

The Company has also entered into an agreement with the Hong Kong Airport Authority to lease additional land at the airport and, subject to certain conditions, extend its franchise to 2036. This will allow it to build an additional light maintenance 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.

Line maintenance experienced modest growth as a result of increases in movements by most customers offset by the loss of China Airlines business. The overall average number of movements handled by HAECO was virtually unchanged at 250 per day.

The component overhaul division occupies 7,000 square metres of modern workshop space at Tseung Kwan O and employs 199 people. Utilisation of these facilities during the year improved as a result of adding new capabilities.

The Company's inventory technical management service for rotatable spares produced satisfactory profits with assets under management expanding from HK\$180 million to HK\$211 million. It now includes Airbus 340-600, 340-500, 330-300 and 300-600F as well as Boeing 747 aircraft.

## **Taikoo (Xiamen) Aircraft Engineering Company Limited**

TAECO performs heavy maintenance and passenger to freighter conversions using its four double wide-body bay hangars at Xiamen Gaoqi International Airport. It also performs line maintenance operations in Beijing, Shanghai and Xiamen which, while representing only a small percentage of its total turnover, handled an average of 39 flights per day during the year and continue to expand.

The opening of a fourth hangar at the end of 2005 and very strong demand allowed TAECO to expand its heavy maintenance work substantially. Sold manhours increased from 2.47 million in 2005 to 3.58 million in 2006 and profit attributable to the Company's shareholders increased by 117% to HK\$221 million. Three of TAECO's bays are dedicated to performing Boeing 747-400 passenger to freighter conversions for Boeing with seven aircraft being completed during the year and four in progress at the year-end. The remaining TAECO capacity is used for heavy maintenance with Cathay Pacific Airways, Japan Airlines and All Nippon Airlines being its most significant customers.

TAECO is building a fifth double wide-body bay hangar which is planned to open in mid 2007 and a sixth which is planned to open in the 1st quarter of 2009. It is also building a new training centre. At the end of 2006 TAECO's headcount totalled 4,098.

## **Hong Kong Aero Engine Services Limited**

HAESL (45% owned) overhauls Rolls-Royce engines at its facility at Tseung Kwan O. It faced strong demand throughout the year and worked at close to the maximum sustainable capacity of its workforce handling 212 engine equivalents as compared to 202 for 2005. Singapore Aero Engine Services Pte. Limited ("SAESL"), in which HAESL has a 20% interest also had a strong year with increased turnover and profitability. The Group's share of the after-tax profit of HAESL including its interest in SAESL rose by 23% to HK\$282 million.

HAESL increased its headcount by 55 and further enhanced its component repair capability during the year with its turbine blade repair cell gaining the 'gold centre of excellence' award from Rolls-Royce Aero Repair & Overhaul. It also commenced construction of an HK\$85 million 2,800 square metre extension to its facility.

## **Net liquid funds and financing**

The Group had deposits and net cash equivalents of HK\$834 million at 31st December 2006 together with committed but undrawn banking facilities of HK\$400 million. This is considered sufficient to meet its committed operating, working capital and capital expenditure requirements for 2007.

## **Corporate governance**

The Board is committed to a high standard of corporate governance and has adopted the Code on Corporate Governance Practices (the "Code") promulgated by The Stock Exchange of Hong Kong Limited. It has complied throughout the year with all the mandatory code provisions and with all the recommended best practices with the following two exceptions:

- quarterly reporting (Section C.1.4 of the Code) which the Board considers would provide little information of additional value to shareholders while increasing administrative costs and pressure to focus on short-term results rather than long-term value creation.
- establishing a nomination committee (Section A.4.4 of the Code) as the Board considers it is in the best interest of the Company and potential new appointees that they collectively review and approve the appointment of new directors.

Details of corporate governance can be found in the 2006 annual report.

The annual results for the year have been reviewed by the Audit Committee of the Company.

## Consolidated Profit and Loss Account

for the year ended 31st December 2006

	Note	2006 HK\$M	2005 HK\$M
Turnover	2	3,844	3,121
Operating expenses:			
Staff remuneration and benefits		(1,670)	(1,425)
Cost of direct material and job expenses		(865)	(680)
Depreciation and amortisation		(229)	(202)
Insurance and utilities		(89)	(107)
Operating lease rentals - land and buildings		(64)	(53)
Repairs and maintenance		(99)	(81)
Other operating expenses		<u>(79)</u>	<u>(72)</u>
Operating profit		749	501
Net finance income		<u>30</u>	<u>7</u>
Net operating profit		779	508
Share of after-tax results of jointly controlled companies		<u>330</u>	<u>267</u>
Profit before taxation		1,109	775
Taxation	3	<u>(81)</u>	<u>(65)</u>
Profit for the year		<u>1,028</u>	<u>710</u>
Attributable to:			
The Company's shareholders		847	618
Minority interests		<u>181</u>	<u>92</u>
		<u>1,028</u>	<u>710</u>
Dividends			
Interim - paid		108	83
Special - paid		416	-
Final - proposed		<u>266</u>	<u>183</u>
	4	<u>790</u>	<u>266</u>
Earnings per share attributable to the Company's shareholders (basic and diluted)	5	<u>HK\$5.09</u>	<u>HK\$3.72</u>

**Consolidated Balance Sheet**  
at 31st December 2006

	Note	2006 HK\$M	2005 HK\$M
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,988	2,442
Leasehold land and land use rights		204	192
Intangible assets		4	6
Jointly controlled companies		698	671
Retirement benefit assets		157	177
Deferred tax assets		12	7
		<u>4,063</u>	<u>3,495</u>
<b>Current assets</b>			
Stocks of aircraft parts		93	78
Work in progress		167	88
Debtors and prepayments	6	505	477
Deposits and bank balances		834	877
Derivative financial instruments		4	-
		<u>1,603</u>	<u>1,520</u>
<b>Current liabilities</b>			
Creditors and accruals	6	959	581
Taxation		22	17
		<u>981</u>	<u>598</u>
<b>Net current assets</b>		<u>622</u>	<u>922</u>
<b>Total assets less current liabilities</b>		<u>4,685</u>	<u>4,417</u>
<b>Non-current liabilities</b>			
Receipt in advance		112	122
Deferred tax liabilities		226	197
		<u>338</u>	<u>319</u>
<b>NET ASSETS</b>		<u>4,347</u>	<u>4,098</u>
<b>Equity attributable to the Company's shareholders</b>			
Share capital	7	166	166
Reserves		3,499	3,346
		<u>3,665</u>	<u>3,512</u>
<b>Minority interests</b>		<u>682</u>	<u>586</u>
<b>TOTAL EQUITY</b>		<u>4,347</u>	<u>4,098</u>

## 1. Basis of principal accounting policies

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and the disclosure requirements set out in the Listing Rules of the Hong Kong Stock Exchange.

Accounting policies have been changed to comply with changes in HKFRS requirements. The adoption of the above HKFRS standards and interpretations does not have any material effect on the accounts.

## 2. Turnover and segmental information

Turnover represents the aggregated amounts invoiced to customers and changes in work in progress.

Since the Group is primarily engaged in the business of commercial aircraft overhaul, modification and maintenance in Hong Kong and Mainland China and has no significant secondary activity, no further business segmental information has been reported.

Reporting by geographical segment for the year ended 31st December:

	Operating principally in Hong Kong		Operating in Mainland China		Inter-segment elimination		Total	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Turnover	<u>2,502</u>	<u>2,260</u>	<u>1,433</u>	<u>928</u>	<u>(91)</u>	<u>(67)</u>	<u>3,844</u>	<u>3,121</u>
Operating profit	317	300	432	201			749	501
Net finance income	26	3	4	4			30	7
Share of after-tax results of jointly controlled companies	<u>303</u>	<u>248</u>	<u>27</u>	<u>19</u>			<u>330</u>	<u>267</u>
Profit before taxation	<u>646</u>	<u>551</u>	<u>463</u>	<u>224</u>			<u>1,109</u>	<u>775</u>
Profit for the year	<u>608</u>	<u>504</u>	<u>420</u>	<u>206</u>			<u>1,028</u>	<u>710</u>
Profit attributable to the Company's shareholders	<u>608</u>	<u>504</u>	<u>239</u>	<u>114</u>			<u>847</u>	<u>618</u>
Capital expenditure	498	205	287	341			785	546
Depreciation	105	108	116	87			221	195
Amortisation	3	2	5	5			8	7
Impairment of stocks - provision /(reversal)	3	(6)	-	-			3	(6)
Auditor's remuneration - statutory audit fees	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>			<u>1</u>	<u>1</u>

Analysis of net assets and equity of the Group by geographical segment at 31st December:

	Operating principally in Hong Kong		Operating in Mainland China		Inter-segment elimination		Total	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Jointly controlled companies	579	599	119	72	-	-	698	671
Other assets	3,058	2,962	2,043	1,421	(133)	(39)	4,968	4,344
Other liabilities	(899)	(773)	(553)	(183)	133	39	(1,319)	(917)
Net assets	<u>2,738</u>	<u>2,788</u>	<u>1,609</u>	<u>1,310</u>	<u>-</u>	<u>-</u>	<u>4,347</u>	<u>4,098</u>
Equity attributable to the Company's shareholders	2,732	2,783	908	729	-	-	3,640	3,512
Minority interests	6	5	701	581	-	-	707	586
Total equity	<u>2,738</u>	<u>2,788</u>	<u>1,609</u>	<u>1,310</u>	<u>-</u>	<u>-</u>	<u>4,347</u>	<u>4,098</u>

### 3. Taxation

	Group	
	2006 HK\$M	2005 HK\$M
Current taxation:		
Hong Kong profits tax	9	19
Overseas tax	48	14
	<u>57</u>	<u>33</u>
Deferred taxation:		
(Increase)/decrease in deferred tax assets	(5)	4
Increase in deferred tax liabilities	29	28
	<u>81</u>	<u>65</u>

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the year. 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\$61 million for the year (2005: HK\$48 million).

### 4. Dividends

	Company	
	2006 HK\$M	2005 HK\$M
Interim, paid on 26th September 2006, of HK\$0.65 per share (2005: HK\$0.50 per share)	108	83
Special, paid on 26th September 2006, of HK\$2.50 per share (2005: nil)	416	-
Final, proposed, of HK\$1.60 per share (2005: HK\$1.10 per share)	<u>266</u>	<u>183</u>
	<u>790</u>	<u>266</u>

Subject to shareholders' approval of the final dividend at the Annual General Meeting on 8th May 2007, payment of the final dividend will be made on 18th May 2007 to shareholders registered at the close of business on the record date, 8th May 2007. The register of members will be closed from 2nd May 2007 to 8th May 2007, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final 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 Monday, 30th April 2007.

## 5. Earnings per share (basic and diluted)

Earnings per share are calculated by reference to the profit attributable to the Company's shareholders of HK\$847 million (2005: HK\$618 million) and to the weighted average of 166,324,850 (2005: 166,324,850) ordinary shares in issue.

## 6. Debtors and creditors

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

The aged analysis of trade debtors and creditors under six months was as follows:

	Group		Company	
	2006	2005	2006	2005
Debtors	99%	96%	99%	95%
Creditors	99%	98%	98%	97%

## 7. Share capital

During 2006 no purchase, sale or redemption of the shares of the Company has been effected by the Company or its subsidiary companies (2005: nil).

## 8. Capital commitments

	Group		Company	
	2006	2005	2006	2005
	HK\$M	HK\$M	HK\$M	HK\$M
Contracted but not provided for in the accounts	297	452	193	366
Authorised by Directors but not contracted for	1,187	565	567	133
	<u>1,484</u>	<u>1,017</u>	<u>760</u>	<u>499</u>

Capital commitments are mainly related to the construction of the third hangar at the Hong Kong International Airport by the Company, the fifth and sixth hangars at Xiamen, Mainland China by TAECO and a landing gear overhaul facility in Xiamen.

## **CHANGE OF DIRECTORS**

The Board of Directors (the “Board”) of Hong Kong Aircraft Engineering Company Limited (the “Company”) announces that:

- (1) Mr. John Robert GIBSON has tendered his resignation as Director Finance of the Company with effect from 7th March 2007; and
- (2) Miss LOW Mei Shuen Michelle has been appointed as an Executive Director of the Company with effect from 6th March 2007 and Director Finance of the Company with effect from 7th March 2007.

Mr. John Robert GIBSON has confirmed that he is not aware of any matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company. He has also confirmed that his resignation is for personal reasons and that he is not aware of any disagreement with the Board. The Board would like to express its gratitude to Mr. Gibson for his outstanding contributions and wise counsel since his appointment as a Director of the Company on 1st September 2005 and offers its best wishes to him.

Miss LOW Mei Shuen Michelle, aged 46, joined John Swire & Sons Limited (“Swire”) group in 1987 and has worked with the group in Hong Kong. She was previously Finance Director of Swire Pacific Limited – Trading & Industrial Division, and The China Navigation Company Limited. She is a fellow of Association of Chartered Certified Accountants and is a member of Hong Kong Institute of Certified Public Accountants, the Chinese Institute of Certified Public Accountants, American Institute of Certified Public Accountants, Canadian Certified General Accountants Association of Hong Kong, CFA Institute and Hong Kong Institute of Chartered Secretaries. She holds an honours degree in Social Sciences from The University of Hong Kong.

Miss Low is being seconded to the Company by the Swire group under the agreement for services referred to the Company’s announcement dated 1st December 2004. In accordance with the Company’s Articles of Association, she will hold office until the annual general meeting to be held in 2007 and will then be eligible for election; thereafter she will retire at the third annual general meeting following her election by ordinary resolution and will be eligible for re-election. Miss Low has entered into a letter of appointment, which constitutes a service contract, with the Company for a term until the annual general meeting to be held in 2007, which will be renewed for a term of three years upon each election/re-election.

The remuneration of senior managers employed by Swire is aimed at attracting, motivating and retaining high-calibre individuals in a competitive international market. The emoluments of Miss Low are determined in accordance with this policy. The annual salary together with various allowances of Miss Low amounts to HK\$1,822,100. She is eligible to receive performance related discretionary bonuses and is also entitled to other benefits in kind and to participate in provident funds.

Miss Low does not have any interest (within the meaning of Part XV of the Securities and Futures Ordinance) in the shares or underlying shares of the Company.

Miss Low is an employee of Swire which is a controlling shareholder of the Company. Apart from this, she has no relationship with any director, senior management or substantial or controlling shareholder of the Company.

Save as disclosed above, there is no other information relating to Miss Low to be disclosed pursuant to Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and there is no other matter which needs to be brought to the attention of the shareholders of the Company.

## **Directors**

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

Executive Directors: C.D. Pratt (Chairman), P.K. Chan, J.C.G. Bremridge, J.R. Gibson, M. Hayman, M.M.S. Low, M.J.A. Sathianathan;

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); and

Independent Non-Executive Directors: R.E. Adams, J.S. Dickson Leach, 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, 6th March 2007*

Website: <http://www.haeco.com>

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