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## **HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED**

(Incorporated in Hong Kong with limited liability)

(Stock Code: 44)

### **Announcement**

#### **Revised Annual Caps for Continuing Connected Transactions with AHK Air Hong Kong Limited**

Reference is made to the Company's announcements dated 13<sup>th</sup> September 2004 and 16<sup>th</sup> February 2006 in connection with the TCP Contract and the LM Contract between the Company and AHK.

The unaudited fees payable by AHK to HAECO under the TCP Contract of HK\$37,871,000 for the year ended 31st December 2006 has surpassed the annual cap of HK\$30,151,000 which was set out in the Company's announcement dated 16<sup>th</sup> February 2006. The exceeding of the annual cap in respect of the year ended 31st December 2006 is a breach of Rule 14A.36(1) of the Listing Rules. The Directors noted that the cap was exceeded due to an increased volume of non-routine work requiring additional material supply under the TCP Contract. Furthermore the amount of line maintenance work will increase due to further fleet and schedule growth. After considering the information now available, Directors have adopted the following annual caps on the estimated amount of fees payable by AHK to the Company for the three years ending 31st December 2007, 2008 and 2009:

- (i) HK\$52.7 million, HK\$55.0 million and HK\$62.0 million respectively under the TCP Contract; and
- (ii) HK\$18.4 million, HK\$20.6 million and HK\$16.0 million respectively under the LM Contract.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules on the aggregate revised annual caps under the TCP Contract and the LM Contract exceed 0.1% but are below 2.5% on annual basis for the three years ending on 31st December 2009, the revision of the annual caps is subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules.

## Background

Reference is made to the Company's announcements dated 13th September 2004 and 16<sup>th</sup> February 2006 in connection with the TCP Contract and the LM Contract between the Company and AHK. The term of the TCP Contract is for 8 years from 10<sup>th</sup> September 2004 and the term of the LM Contract is for 5 years from 12<sup>th</sup> September 2004.

In the first week of 2007, the Company became aware that the unaudited fees payable by AHK to HAECO under the TCP Contract of HK\$37,871,000 for the year ended 31st December 2006 has surpassed the annual cap of HK\$30,151,000 which was set out in the Company's announcement dated 16<sup>th</sup> February 2006. The exceeding of the annual cap in respect of the year ended 31st December 2006 is a breach of Rule 14A.36(1) of the Listing Rules. The Stock Exchange has indicated that it reserves the right to take disciplinary action against the Company and its Directors. The Directors note that the exceeding of the annual cap for 2006 was caused by extraordinary incidents, over and above normal maintenance requirements; increasing volume of non-routine work and requiring additional material supply under the TCP Contract. In particular, there were four incidents resulting in an increase in fees totalling HK\$10 million of which HK\$7 million was not invoiced to AHK until January 2007.

There is a system for monitoring the volume of work done which is subject to caps. The Company's management accounting staff review the cumulative amount of work invoiced each month and check with commercial department the forecast volume of work for the remainder of the year. They alert senior management if it appears likely that the total for the year will exceed the cap.

For the year ended 31st December 2006, the Company's turnover from AHK under the TCP Contract and the LM Contract totalled HK\$37,871,000 and HK\$12,078,000.

Directors note that, while the amount of line maintenance work was within the cap for 2006, further increases are projected in 2007 to 2009 due to fleet and schedule growth.

## The annual caps

After considering the information now available, Directors have adopted the following annual caps on the estimated amount of fees payable by AHK to the Company for the three years ending 31st December 2007, 2008 and 2009. This revision is based on the unaudited fees payable by AHK to HAECO under the TCP Contract and the LM Contract for the year ended 31st December 2006 and the projected volume of the Transactions from 2007 to 2009 allowing for a possible increase in AHK's fleet from eight to nine Airbus A300-600 freighters during the period.

<u>TCP Contract</u> (HK\$ '000)	<u>2007</u>	<u>2008</u>	<u>2009</u>
Former annual caps	33,367	40,000	33,700
Revised annual caps	52,700	55,000	62,000



<u>LM Contract</u> (HK\$ '000)	<u>2007</u>	<u>2008</u>	<u>2009</u>
Former annual caps	13,400	13,400	4,125
Revised annual caps	18,400	20,600	16,000

### **Reasons for, and benefits of, the Transactions**

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

### **Connected transaction of the Company**

AHK is a connected person of HAECO because AHK is an associate of CX which is a substantial shareholder of HAECO. The revision of the annual caps of the TCP Contract and the LM Contract therefore constitutes a connected transaction of the Company under the Listing Rules.

### **Compliance with Listing Rules**

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules on the aggregate revised annual caps under the TCP Contract and the LM Contract exceed 0.1% but are below 2.5% on annual basis for the three years ending on 31st December 2009, the revision of the annual caps is subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules.

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 2009 or if any of the annual caps is exceeded or when there is a material change to the terms of the TCP Contract or the LM Contract.

### **Opinion of the Directors**

The Directors, including the independent non-executive Directors, confirm that the revision of the annual caps for the TCP Contract and the LM Contract are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

### **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.J.A. Sathianathan;

Non-Executive Directors: M. Cubbon, C.P. Gibbs, D.C.Y. Ho, P.A. Johansen, A.N. Tyler;

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

Alternate Director: The Hon. Sir Michael Kadoorie (Alternate Director to D.C.L. Tong).



*Definitions*

- “AHK”** AHK Air Hong Kong Limited, the principal activity of which is the operation of cargo airline services.
- “CX”** Cathay Pacific Airways Limited, the principal activity of which is the operation of scheduled airline services.
- “Company” or “HAECO”** Hong Kong Aircraft Engineering Company Limited, the principal activity of which is the provision of overhaul and maintenance services for commercial aircraft.
- “Directors”** The directors of the Company.
- “LM Contract”** The Line Maintenance Contract dated 9th September 2004 between HAECO and AHK.
- “Listing Rules”** The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- “TCP Contract”** The Total Care Package Contract dated 9th September 2004 between HAECO and AHK.
- “Transactions”** The continuing connected transactions contemplated in the LM Contract and the TCP Contract.

By Order of the Board  
**Hong Kong Aircraft Engineering Company Limited**  
David Fu  
Company Secretary

Hong Kong, 14<sup>th</sup> February 2007

*(Please refer to the published version of this announcement in The Standard.)*