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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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)

**Discloseable Transactions:**

**Acquisition of Engine Overhaul Facility  
and entering into GE Branded Service Agreements**



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11th April 2008

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## DEFINITIONS

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

<b>Acquisition Agreement</b>	The sale and purchase agreement dated 31st March 2008 entered into between HAECO, TAECO, GE Pacific and General Electric Company in respect of the acquisition by HAECO and TAECO of 75.01% and 10% interests respectively in TEXL.
<b>Board</b>	The board of Directors.
<b>Cathay Pacific</b>	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.
<b>Directors</b>	The directors of the Company.
<b>Engine Overhaul Facility</b>	The engine overhaul facility comprising an engine shop with a floor area of 3,500 square metres located in Xiamen, PRC and owned by TEXL.
<b>HAECO or Company</b>	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.
<b>GE</b>	General Electric Company, a company incorporated in the U.S.A., whose principal activities including, amongst others, manufacturing and maintenance of aircraft engines, power generation and financial services and GE Engine Services, Inc., GE Engine Services Distribution, LLC., GEAE Technology, Inc., and GE On Wing Support (Xiamen) Co., Ltd., which are companies in the GE group and are contracting parties to the GE Branded Service Agreements.
<b>GE Branded Service Agreements</b>	Agreements entered into by TEXL and GE dated 31st March 2008 relating to the GE branded service arrangement whereby TEXL will acquire from GE a GE branded service arrangement with the right to maintain GE90 engines for a period of 22 years.
<b>GE Pacific</b>	GE Pacific Private Limited, a subsidiary of GE incorporated in Singapore, whose principal activity is investment holding.
<b>Group</b>	HAECO and its subsidiaries, including TAECO.
<b>Latest Practicable Date</b>	5th April 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular.
<b>Listing Rules</b>	The Rules Governing the Listing of Securities on the Stock Exchange.
<b>Model Code</b>	Model Code for Securities Transactions by Directors of Listed Companies, being Appendix 10 of the Listing Rules.

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## DEFINITIONS

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<b>PRC</b>	The People's Republic of China.
<b>SFO</b>	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
<b>Stock Exchange</b>	The Stock Exchange of Hong Kong Limited.
<b>Swire</b>	Swire Pacific Limited, a company incorporated in Hong Kong and listed on the Stock Exchange.
<b>TAECO</b>	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.
<b>TEXL</b>	GE Engines Services (Xiamen) Company Limited, a non-wholly owned subsidiary of GE Pacific incorporated in the PRC with registered capital of US\$33 million, whose principal activity is the provision of overhaul, maintenance and test services for aircraft engines.
<b>Transactions</b>	<ol style="list-style-type: none"><li>(1) The acquisition by HAECO and TAECO of 75.01% and 10% interests respectively in TEXL pursuant to the Acquisition Agreement; and</li><li>(2) The acquisition by TEXL of a GE branded service arrangement with the right to maintain GE90 engines for a period of 22 years pursuant to the GE Branded Service Agreements.</li></ol>

**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

11th April 2008

Dear Sir or Madam,

**Discloseable Transactions:  
Acquisition of Engine Overhaul Facility  
and entering into GE Branded Service Agreements**

**Introduction**

Reference is made to the Company's announcement dated 31st March 2008 regarding the Transactions relating to the Acquisition Agreement and GE Branded Service Agreements dated 31st March 2008.

Under the Acquisition Agreement, HAECO and TAECO agreed to purchase 75.01% and 10% interests respectively in TEXTL, represented by US\$24.75 million and US\$3.30 million respectively in the registered capital of TEXTL, from GE Pacific for cash consideration of US\$49.6 million and US\$6.6 million respectively.

Under the GE Branded Service Agreements, TEXTL agreed to acquire from GE a GE branded service arrangement with the right to maintain GE90 engines for a period of 22 years for cash consideration of US\$45 million and an annual licence fee of US\$300,000.

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## LETTER FROM THE BOARD

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The purposes of this circular are to provide you with further information relating to the Acquisition Agreement, the GE Branded Service Agreements and the Transactions and other information required by the Listing Rules.

### **Acquisition Agreement** dated 31st March 2008

Parties: (1) HAECO  
(2) TAECO  
(3) GE Pacific  
(4) General Electric Company

### **GE Branded Service Agreements** dated 31st March 2008

Parties: (1) TEXTL  
(2) GE

Under the Acquisition Agreement, HAECO and TAECO agreed to purchase 75.01% and 10% interests respectively in TEXTL, represented by US\$24.75 million and US\$3.30 million respectively in the registered capital of TEXTL, from GE Pacific for cash consideration of US\$49.6 million and US\$6.6 million respectively.

Under the GE Branded Service Agreements, TEXTL agreed to acquire from GE a GE branded service arrangement with the right to maintain GE90 engines for a period of 22 years for cash consideration of US\$45 million and an annual licence fee of US\$300,000.

### **Consideration**

The consideration, comprising:

- (1) US\$49.6 million payable by HAECO to GE Pacific for a 75.01% interest in TEXTL;
- (2) US\$6.6 million payable by TAECO to GE Pacific for a 10% interest in TEXTL; and
- (3) US\$45 million and an annual licence fee of US\$300,000 payable by TEXTL to GE Pacific and General Electric Company for a GE branded service arrangement with the right to maintain GE90 engines for a period of 22 years,

were determined after arm's length negotiation between the relevant parties following a GE auction bid process whereby HAECO and TAECO had been selected as the purchasers.

### **Completion**

Completion of the Transactions is conditional upon the parties obtaining all applicable government and/or regulatory approvals. Completion shall take place within seven business days after the last of the above conditions have been satisfied.

On completion of the Acquisition Agreement and Engine Rights Agreement, TEXTL will become a non-wholly owned subsidiary of HAECO and will be renamed Taikoo Engine Services (Xiamen) Limited.

**Source of funding**

The Transactions will be funded by commercial bank loans, other debt instruments of the Group and/or cash generated from the Group's business operations.

**Information Relating to TEXL**

TEXL is the owner of the Engine Overhaul Facility comprising an engine shop with a floor area of 3,500 square metres located in Xiamen, PRC and adjoining TAECO's aircraft maintenance facility in Xiamen. The Engine Overhaul Facility includes an advanced engine test cell capable of accommodating the full range of GE90 engines. It was designed and built to GE standards, including environmental, health and safety standards, but has not been utilised since 2003.

As at 31st December 2007, the unaudited net asset value of TEXL under PRC accounting standards was US\$27 million.

For the year ended 31st December 2006, the audited net losses before and after taxation and extraordinary items under PRC accounting standards of TEXL were US\$2 million and US\$2 million respectively.

For the year ended 31st December 2007, the unaudited net losses before and after taxation and extraordinary items under PRC accounting standards of TEXL were US\$3 million and US\$3 million respectively.

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

The Transactions will enable the Group to provide maintenance services for its customer airlines in respect of the full range of GE90 engines. The Directors consider that the terms of the Transactions are fair and reasonable and in the interests of the shareholders as a whole.

**General**

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, GE and GE Pacific and their ultimate beneficial owner are third parties independent of and not connected with HAECO or any of its connected persons.

As the relevant percentage ratio under Rule 14.07 of the Listing Rules for the Transactions is more than 5% but less than 25%, the Transactions constitute discloseable transactions, and are therefore not subject to approval by the Company's shareholders under the Listing Rules.

**Effect of Transactions**

As mentioned above, the Transactions will be financed by commercial bank loans, other debt instruments of the Group and/or cash generated from the Group's business operations. The Transactions will therefore increase the Group's fixed assets and liabilities. The Transactions may also result in an increase in the Group's debt-to-equity ratio. However, the Company does not expect the Transactions to have any material negative impact on its cash flow position or its business operations.

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## LETTER FROM THE BOARD

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Save as described above, the Transactions are not expected to have any material impact on earnings, assets and liabilities of the Group.

### **Additional information**

Your attention is also drawn to the information set out in the appendix to this circular.

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

**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.

**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**

<b>Name of Director</b>	<b>Capacity</b>	<b>Long or short position</b>	<b>Number of ordinary shares in the Company</b>	<b>Percentage of issued capital</b>
The Hon. Sir Michael Kadoorie (Alternate Director)	Trust (Note 1)	Long position	3,782,886	2.27%
J.S. Dickson Leach	Trust (Note 2)	Long position	104,800	0.06%
D.C.L. Tong	Personal / Trust (Note 3)	Long position	124,800	0.08%

**Interests in shares of TAECO**

<b>Name of Director</b>	<b>Capacity</b>	<b>Long or short position</b>	<b>Percentage of issued capital</b>
P.K. Chan	Controlled corporation (Note 4)	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) J.S. Dickson Leach is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.
- (3) D.C.L. Tong is interested personally in 20,000 shares of the Company. In addition, he is deemed to be interested in 104,800 shares in his capacity as a trustee of the discretionary trust referred to in Note 2 above. Those 104,800 shares are therefore duplicated in the trust interest of J.S. Dickson Leach. D.C.L. Tong does not have any beneficial interest in those shares.
- (4) 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**

<b>Name</b>	<b>Number of ordinary shares</b>	<b>Long or short position</b>	<b>Percentage of issued capital</b>
Cathay Pacific Airways Limited	45,649,686	Long position	27.45%
Swire Pacific Limited (Note 1)	101,397,903	Long position	60.96%
John Swire & Sons Limited (Note 2)	101,397,903	Long position	60.96%

Note: As at the Latest Practicable Date,

- (1) Swire Pacific Limited was interested in 55,748,217 shares of the Company as beneficial owner and was also deemed to be interested in the 45,649,686 shares of the Company directly held by Cathay Pacific Airways Limited by virtue of Swire Pacific Limited's approximately 40.00% 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 101,397,903 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 36.32% of the issued share capital and approximately 55.67% 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:

<b>Name of subsidiary</b>	<b>Name of shareholder</b>	<b>Number and class of shares held</b>	<b>Percentage of shareholding</b>
South China Aero Technology Limited	China National Aero Technology Import and Export Corporation	200,000 ordinary shares	40%
TAECO GA Aviation Services LLC	Global Aerosystems, LLC	4,000 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, C.D. Pratt and A.N. Tyler are directors of Swire. M. Cubbon, 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 current term of the JSS Agreement is from 1st January 2008 to 31st December 2010 and 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.

#### **(e) 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).

#### **LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance to the Group and so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

#### **MISCELLANEOUS**

1. The secretary of the Company is David Fu. He holds a Master of Arts degree from Oxford University and is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.
2. The qualified accountant to the Company is Michelle Low. She holds an honours degree in Social Sciences from The University of Hong Kong and is a fellow of Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants.
3. The registered address of the Company is at 35th Floor, Two Pacific Place, 88 Queensway, Hong Kong. The head office of the Company is at 80 South Perimeter Road, Hong Kong International Airport, Lantau, Hong Kong.
4. The Company's share registrars and transfer office is Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.