



# Hong Kong Aircraft Engineering Company Limited

Stock Code: 00044



# 2012

Interim Report



# Financial Highlights

		Six months ended 30th June		
		2012	2011	Change
<b>Results</b>				
Turnover	HK\$ Million	<b>2,899</b>	2,544	<b>+14.0%</b>
Net operating profit	HK\$ Million	<b>310</b>	341	<b>-9.1%</b>
Share of after-tax results of jointly controlled companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	HK\$ Million	<b>256</b>	194	<b>+32.0%</b>
– Other jointly controlled companies	HK\$ Million	<b>17</b>	10	<b>+70.0%</b>
Profit attributable to the Company's shareholders	HK\$ Million	<b>482</b>	425	<b>+13.4%</b>
Earnings per share attributable to the Company's shareholders (basic and diluted)	HK\$	<b>2.90</b>	2.56	<b>+13.4%</b>
First interim dividend per share	HK\$	<b>0.88</b>	0.70	<b>+25.7%</b>

		30th June 2012	31st December 2011	Change
<b>Financial Position</b>				
Net borrowings	HK\$ Million	<b>547</b>	106	<b>+416.0%</b>
Gearing ratio	%	<b>8.1</b>	1.5	<b>+6.6%pt</b>
Total equity	HK\$ Million	<b>6,770</b>	7,090	<b>-4.5%</b>
Equity attributable to the Company's shareholders per share	HK\$	<b>33.98</b>	36.52	<b>-7.0%</b>

		Six months ended 30th June		
		2012	2011	Change
<b>Cash Flows</b>				
Net cash generated from operating activities	HK\$ Million	<b>395</b>	422	<b>-6.4%</b>
Net cash inflow before financing activities	HK\$ Million	<b>429</b>	487	<b>-11.9%</b>

*Note:*

The weighted average number of shares in issue is 166,324,850 in 2012 (2011: 166,324,850).

Additional financial information of the Group's jointly controlled companies is presented on page 18.

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The HAECO Group reported an attributable profit of HK\$482 million for the first six months of 2012. This compares with a profit of HK\$425 million for the first six months of 2011. Earnings per share increased by 13% to HK\$2.90. Turnover increased by 14% to HK\$2,899 million.

The Directors have declared a first interim dividend of HK\$0.88 per share (2011: HK\$0.70 per share) for the period ended 30th June 2012, an increase of 26% over the first interim dividend paid in 2011, as compared with an increase of 13% in attributable profit. It is the intention that ordinary dividends should be paid generally in the proportion of one-third for the first interim and two-thirds for the second interim, subject to the level of attributable profit for the full year. The higher increase in the dividend than in attributable profit for the half-year reflects an adjustment in this regard and shareholders therefore should not expect a similar increase in the second interim dividend. The first interim dividend, which totals HK\$146 million (2011: HK\$116 million), will be paid on 18th September 2012 to shareholders registered at the close of business on the record date, being Friday, 31st August 2012. Shares of the Company will be traded ex-dividend as from Wednesday, 29th August 2012. The register of members will be closed on Friday, 31st August 2012, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 30th August 2012.

Demand for HAECO's airframe maintenance and line maintenance services in Hong Kong remained strong during the first half of 2012 despite reduced line maintenance services for cargo flights. Results from Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") were adversely affected by

higher operating costs and a reduction in demand for its airframe maintenance services. Hong Kong Aero Engine Services Limited ("HAESL"), the Company's joint venture engine overhaul facility in Hong Kong, performed well in the first half of 2012. This reflected a higher workload consequent upon increased work being done per engine. The results of the Group's joint ventures in Mainland China improved from the same period last year. Output was higher, but losses continued to be incurred because of under-utilisation of facilities.

The Group continued to invest in Hong Kong and Mainland China in order to expand its facilities and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure during the first half of 2012 was HK\$199 million. Capital expenditure committed at the end of June was HK\$480 million.

Against a background of increasing global economic uncertainty, the second half of 2012 is expected to be challenging. Demand for HAECO's airframe maintenance and line maintenance in Hong Kong is expected to remain firm. Forward bookings for TAECO's airframe maintenance services in the second half of the year are weak. HAESL's performance in the second half of 2012 is expected to be adversely affected by a reduction in demand for engine overhaul services resulting from Cathay Pacific's decision to accelerate the retirement of its Boeing 747-400 aircraft. The joint ventures in Mainland China are expected to continue to be affected by increased wage costs and to be affected by increased competition. The Group will continue to take measures to improve productivity in order to mitigate the effect of cost increases.

**Christopher Pratt**

*Chairman*

Hong Kong, 7th August 2012

In general, the Group's businesses performed well in the first half of 2012. Despite uncertainties in the global economy, the Group continued to invest in the expansion of its capacity and capabilities.

## AIRFRAME MAINTENANCE

HAECO was voted the Best Airframe Maintenance Repair and Overhaul ("MRO") Provider – Asia at the 2012 Aircraft Technology Engineering & Maintenance Awards and was named a leading independent MRO organisation at the 2012 Aviation Week MRO of the Year Awards.

During the first half of 2012, HAECO has received approval from the civil aviation authority of Japan to undertake maintenance and component overhaul for Airbus A320 and Boeing 747-8 aircraft. The Company also applied for approval from the civil aviation authorities of Australia and Hong Kong to undertake airframe maintenance for Airbus A380 aircraft.

TAECO has entered into a contract with Las Vegas Sands Corporation to perform VIP cabin reconfiguration on its Boeing 737-300 aircraft. Under the contract, TAECO will do conceptual design and will fabricate and install cabin interior parts.

TAECO has received approval from the civil aviation authority of The Philippines to perform airframe maintenance for Airbus A319 and A320 aircraft.

Taikoo (Shandong) Aircraft Engineering Company Limited ("STAECO") has received approval from the civil aviation authorities of India, Indonesia and Vietnam to undertake maintenance work on Airbus A319, A320 and A321 aircraft, on Boeing 737 and 737NG aircraft and on Bombardier CRJ-700 and CRJ-900 aircraft. The civil aviation authority of Mainland China has authorised STAECO to undertake design and component modification work.

Taikoo Sichuan Aircraft Engineering Services Company Limited ("Taikoo Sichuan") has applied to the civil aviation authority of the United States for approval to perform maintenance work and expects to receive such approval before the end of 2012.

## LINE MAINTENANCE

During the first half of 2012, TAECO received approval from the civil aviation authorities of the European Union and Bermuda to undertake line maintenance for Boeing 747-8 aircraft in Beijing and Shanghai. TAECO also received approval from the civil aviation authority of Thailand to undertake line maintenance for Thai Airways' Airbus A330 and Boeing 777 aircraft in Xiamen, approval from the civil aviation authority of the United States to perform line maintenance services for Delta's Airbus A330 and Boeing 777 aircraft in Shanghai, approval from civil aviation authority of the United Arab Emirates to perform line maintenance services for Airbus A340-500 aircraft in Shanghai.

Singapore HAECO Pte. Limited is applying to the civil aviation authority of Singapore for approval to undertake maintenance of Airbus A330 and Boeing 777 aircraft.

Taikoo Sichuan has received approval from the civil aviation authority of Mainland China to perform line maintenance services for Airbus A330 and Boeing 737NG aircraft in Chengdu.

## ENGINE OVERHAUL

In the first half of 2012, Taikoo Engine Services (Xiamen) Company Limited ("TEXL") completed two performance restorations of GE90-115B engines, of which one was for Cathay Pacific Airways.

TEXL continues to invest in equipment and tooling to support the development of its capability to work on GE90-110B and GE90-115B engines.

## COMPONENT OVERHAUL

Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO") has obtained approval from the civil aviation authority of the United States to overhaul components for Airbus A320 aircraft. TALSCO has acquired two shipsets of Airbus A320 landing gears. These new additions to its pool of rotatable assets will allow the company to better serve customers operating Airbus A320 family aircraft. TALSCO is further developing its landing gear overhaul capability so that it extends to Airbus A330 aircraft. In June 2012, the Group subscribed US\$9.5 million out of the total additional share capital of US\$13 million in TALSCO. As a result, the Group's interest in TALSCO has increased from 55.86% to 62.14%.

Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited has set up a laboratory to perform material testing, with the aim of reducing the time it takes to retread aircraft tyres and testing costs.

Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("Taikoo Spirit") has obtained approval from the civil aviation authority of Mainland China for its facilities at Jinjiang to undertake maintenance management, and approval from the civil aviation authority of the European Union for those facilities to perform maintenance work to the rated components. Taikoo Spirit is developing the capability, which it expects to be in place by the end of 2012, to work on Trent 700 engine thrust reversers and V2500 engine nacelles. Taikoo Spirit plans to develop its overhaul capabilities so that, by the end of 2012, they will extend to Airbus A320 and A330 aircraft and to Boeing 737NG, 747, 767 and 777 aircraft.

STAECO is working with a vendor of in-flight entertainment equipment in order to develop the ability to design and install aviation video on demand.

## INVENTORY TECHNICAL MANAGEMENT ("ITM") AND FLEET TECHNICAL MANAGEMENT ("FTM")

HAECO continues to provide ITM services to Cathay Pacific's Boeing 747-8 freighter fleet. Two more such aircraft were delivered in first half of 2012 (making a total of five), with another three to be delivered by the end of the year.

## TECHNICAL TRAINING

HAECO and TAECO continued to provide training to their own staff and to airline customers at their training centres in Hong Kong and Xiamen.

HAECO's training centre conducted 512 training courses for 5,753 internal and external students in the first half of 2012.

TAECO's training centre conducted 153 external training classes for 2,386 external students from Mainland China, Hong Kong, Singapore, Malaysia, and Sri Lanka during the first half of 2012.

TAECO's training centre continued to develop new training capabilities. In 2012, it expects to receive approvals for training programmes related to Airbus A380 and Boeing 777 aircraft.

# Review of Operations

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HAECO and TAECO sold 3.37 million manhours for airframe maintenance in the first half of 2012. The workload increased in Hong Kong by 1% and decreased in Xiamen by 2%. HAECO did more line maintenance, reflecting increased aircraft movements.

The profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		Change
	2012 HK\$M	2011 HK\$M	
HAECO	203	195	+4%
TAECO	46	78	-41%
Share of:			
HAESL and SAESL	256	194	+32%
Other subsidiary and jointly controlled companies	(23)	(42)	+45%
	<b>482</b>	<b>425</b>	<b>+13%</b>

	Six months ended 30th June		Change
	2012	2011	
Airframe maintenance sold manhours (in millions)			
HAECO	1.60	1.58	+1%
TAECO	1.77	1.81	-2%
Line maintenance movements in Hong Kong (per day)	319	299	+7%

## HAECO

HAECO's Hong Kong operations comprise airframe maintenance in its hangars, line maintenance at the passenger and cargo terminals at Hong Kong International Airport, component overhaul at Tseung Kwan O, inventory technical management and fleet technical management. Business in Hong Kong remained stable in the first half of 2012. HAECO recorded a 4% increase in profit compared to the first half in 2011.

Airframe maintenance manhours sold were 1.6 million, 1% higher than in the first half of 2011. Approximately 75% of the work was for airlines based outside Hong Kong.

Line maintenance aircraft movements increased by 7% compared with the first half of 2011, with an average of 319 aircraft handled per day. There were more passenger aircraft movements and slightly fewer cargo aircraft movements.

In May 2012, a line maintenance station was opened in Chongqing. This is being operated by TAECO as an agent for HAECO.

Component repair activity at the Tseung Kwan O facility totalled 0.147 million manhours sold, 9% higher than that of the first half of 2011. The growth reflected HAECO's own increase in capability and firm demand.

HAECO provides inventory technical management for rotatable spares for Airbus A300-600F and A330 aircraft and for Boeing 747-8 freighter aircraft. HAECO also provides fleet technical management for Airbus A320, Boeing 747-200F, Boeing 747-300F and Boeing 747-400F aircraft.

## TAECO

The demand for TAECO's airframe maintenance services declined during the first half of 2012 with manhours sold lower by 2% at 1.77 million hours. The company's profit decreased by 41% mainly due to higher staff costs and mark-to-market losses on forward foreign exchange contracts.

There was strong demand for line maintenance at TAECO's stations at Xiamen, Beijing and Tianjin airports. Line maintenance customers at Shanghai Pudong International Airport are handled by

TAECO's Shanghai station and by Shanghai Taikoo Aircraft Engineering Services Company Limited ("STA"), TAECO's new joint venture with Shanghai Foreign Aviation Service Corporation. An average of 72 aircraft movements per day were handled by TAECO and STA in the first half of 2012, representing an increase of 33% over the first half of 2011.

TAECO continues to perform cargo conversion work on Boeing 747-400BCF and Boeing 757 aircraft and completed the conversion of two Boeing 747-400BCF aircraft in the first half of 2012. TAECO has entered into contracts to complete and modify cabins for Airbus and Boeing private jets and for other commercial aircraft.

## HAESL

HAESL (45% owned) recorded a 29% increase in profit in the first half of 2012 compared to the first half of 2011. This reflected an increase in number of engines overhauled and a higher workload consequent upon increased work being done per engine.

Singapore Aero Engine Services Pte. Limited ("SAESL"), in which HAESL has a 20% interest, recorded a 44% increase in profit in the first half of 2012 over the first half of 2011, with more work being done per engine.

## OTHER PRINCIPAL SUBSIDIARY AND JOINTLY CONTROLLED COMPANIES

The results of the Group's other subsidiary and jointly controlled companies during the period were broadly in line with expectations. The results of the Group's joint ventures in Mainland China improved from the same period last year. Output was higher, but losses continued to be incurred because of under-utilisation of facilities.

TEXL (owned 75.01% by HAECO and 10% by TAECO) completed 11 quick-turn repairs and two performance restorations in the first half of 2012. Revenue increased over eight times from the same period in 2011, reflecting higher output and heavier content, but losses continued to be made because of under-utilisation of facilities.

TALSCO (owned 56.285% by HAECO and 10% by TAECO) reported a profit in the first half of 2012 compared with a loss in the first half of 2011. TALSCO completed the overhaul of 53 units of landing gears during first half of 2012, which represented a four times increase from 2011.

Taikoo Spirit (owned 41.8% by HAECO and 10.76% by TAECO) reported a smaller loss in first half of 2012 than in the first half of 2011, as more thrust reversers were overhauled.

## STAFF

The Group's headcount at the dates shown was as follows:

	30th June 2012	31st December 2011	Change
HAECO	4,994	5,102	-2%
TAECO	5,086	5,240	-3%
HAESL	1,110	1,023	+9%
Other subsidiary and jointly controlled companies in which HAECO and TAECO own more than 20%	2,807	2,689	+4%
	<b>13,997</b>	<b>14,054</b>	-

# Financial Review

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## TURNOVER

Turnover increased by 14% to HK\$2,899 million, with a 8% increase in HAECO's turnover in Hong Kong, a 1% decrease in that of TAECO and a 314% increase in that of other subsidiaries, which was mainly driven by TEXL and TALSCO increases.

	Six months ended 30th June		
	2012 HK\$M	2011 HK\$M	Change
HAECO	1,765	1,641	+8%
TAECO	815	826	-1%
Others	319	77	+314%
	<b>2,899</b>	<b>2,544</b>	<b>+14%</b>

## OPERATING EXPENSES

Operating expenses increased by 16% to HK\$2,564 million. The increase in staff remuneration and benefits was mainly due to higher wage costs in Mainland China. The significant increase in cost of direct material and job expenses was mainly driven by higher business volume in TEXL.

	Six months ended 30th June		
	2012 HK\$M	2011 HK\$M	Change
Staff remuneration and benefits	1,253	1,134	+10%
Cost of direct material and job expenses	783	585	+34%
Depreciation, amortisation and impairment	234	203	+15%
Other operating expenses	294	287	+2%
	<b>2,564</b>	<b>2,209</b>	<b>+16%</b>

## PROFIT

The change in the interim profit attributable to the Company's shareholders can be analysed as follows:

	HK\$M	
2011 interim profit	425	
Turnover		
HAECO	124	The increase principally reflects a 1% increase in airframe maintenance manhours sold and a 7% increase in line maintenance aircraft movements. These increases reflect firm demand.
TAECO	(11)	The decrease principally reflects a 2% decrease in airframe maintenance manhours as a result of lower demand from TAECO's principal customers.
Others	242	The increase principally reflects more engine repair work at TEXL and higher landing gear output at TALSCO.
Staff remuneration and benefits	(119)	The increase reflects wage increases.
Cost of direct material and job expenses	(198)	The increase reflects an increase in business volume.
Depreciation, amortisation and impairment	(31)	The increase principally reflects depreciation of the new hangar at TAECO and the impairment of rotatable spares at HAECO.
Other operating expenses	(7)	
Share of after-tax results of jointly controlled companies	69	The increase reflects higher profits at HAESL and SAESL.
Taxation	3	The decrease reflects a lower profit at TAECO.
Other items	(31)	This includes TAECO's forward contract exchange loss.
Non-controlling interests	16	The decrease reflects a lower profit at TAECO.
<b>2012 interim profit</b>	<b>482</b>	



## FINANCIAL POSITION

- Total assets at 30th June 2012 were HK\$9,950 million. Additions to fixed assets were HK\$171 million, principally comprising HK\$106 million for plant, machinery and tools and HK\$34 million spent by HAECO on rotatable and repairable spares in relation to inventory technical management.
- At 30th June 2012, the Group's net borrowings were HK\$547 million (representing an increase of HK\$441 million from their amount at 31st December 2011), with a gearing ratio of 8.1%. Net borrowings consisted of short-term loans of HK\$142 million and long-term loans of HK\$1,532 million, net of bank balances and short-term deposits of HK\$1,127 million. Borrowings are denominated in US dollars and HK dollars, and are fully repayable by 2016. The increase in net borrowings largely reflects the special dividend paid in the first half of the year.
- The maturity of long-term loans at 30th June 2012 was as follows:

	Group	
	30th June 2012 HK\$M	31st December 2011 HK\$M
Bank loans:		
Repayable within one year	658	1,003
Repayable between one and two years	450	10
Repayable between two and five years	424	283
	<b>1,532</b>	<b>1,296</b>

- Committed loan facilities amounted to HK\$2,868 million at 30th June 2012, of which HK\$1,550 million were undrawn. There were uncommitted facilities of HK\$641 million, of which HK\$278 million were undrawn. Sources of funds at 30th June 2012 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M
<b>Committed facilities</b>				
– Loans	2,868	1,318	900	650
<b>Uncommitted facilities</b>				
– Loans and overdraft	641	363	278	–
<b>Total</b>	<b>3,509</b>	<b>1,681</b>	<b>1,178</b>	<b>650</b>

- TAECO mitigates its exposure to changes in the exchange rate of the US dollar against Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 30th June 2012, TAECO had sold forward a total of US\$170 million to fund part of its Renminbi requirements for 2012 to 2015. The weighted average exchange rate applicable to these forward sales was RMB6.32 to US\$1. Due to the weakness of the Renminbi against the US dollar, there were unrealised mark-to-market losses of HK\$21 million on forward foreign exchange contracts during the first half of 2012.
- The Group's borrowings were on a floating rate basis at 30th June 2012. The principal amount of borrowings at 30th June 2012 which give rise to exposure to interest rate changes was HK\$1,674 million. The Group's weighted average effective interest rate per annum at 30th June 2012 was 1.54%.

# Consolidated Income Statement

for the six months ended 30th June 2012 – unaudited

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	Note	Six months ended 30th June		Year ended 31st December
		2012 HK\$M	2011 HK\$M	2011 HK\$M
<b>Turnover</b>	4	<b>2,899</b>	2,544	5,171
<b>Operating expenses:</b>				
Staff remuneration and benefits		(1,253)	(1,134)	(2,366)
Cost of direct material and job expenses		(783)	(585)	(1,260)
Depreciation, amortisation and impairment		(234)	(203)	(439)
Insurance and utilities		(64)	(62)	(131)
Operating lease rentals – land and buildings		(99)	(79)	(157)
Repairs and maintenance		(61)	(68)	(165)
Other		(70)	(78)	(152)
		<b>(2,564)</b>	(2,209)	(4,670)
<b>Other net (losses)/gains</b>		<b>(19)</b>	10	31
<b>Operating profit</b>	4	<b>316</b>	345	532
<b>Net finance charges</b>	5	<b>(6)</b>	(4)	(7)
<b>Net operating profit</b>		<b>310</b>	341	525
<b>Share of after-tax results of jointly controlled companies</b>	10	<b>273</b>	204	435
<b>Profit before taxation</b>		<b>583</b>	545	960
<b>Taxation</b>	6	<b>(70)</b>	(73)	(84)
<b>Profit for the period</b>		<b>513</b>	472	876
<b>Profit attributable to:</b>				
The Company's shareholders		<b>482</b>	425	821
Non-controlling interests		<b>31</b>	47	55
		<b>513</b>	472	876
<b>Dividends</b>				
First interim – declared/paid		<b>146</b>	116	116
Second interim – paid		–	–	316
Special – paid		–	–	566
		<b>146</b>	116	998
		<b>HK\$</b>	HK\$	HK\$
<b>Earnings per share for profit attributable to the Company's shareholders (basic and diluted)</b>	7	<b>2.90</b>	2.56	4.94

	2012	2011			
	First interim HK\$	First interim HK\$	Second interim HK\$	Special HK\$	Total HK\$
<b>Dividends per share</b>	<b>0.88</b>	0.70	1.90	3.40	6.00

# Consolidated Statement of Comprehensive Income

for the six months ended 30th June 2012 – unaudited

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	Six months ended 30th June		Year ended 31st December
	2012 HK\$M	2011 HK\$M	2011 HK\$M
<b>Profit for the period</b>	<b>513</b>	472	876
<b>Other comprehensive income:</b>			
Changes in cash flow hedges			
– recognised during the period	–	2	–
– deferred tax	–	–	1
– transferred to other net losses	–	(3)	(8)
Share of other comprehensive income of a jointly controlled company	1	–	(2)
Net translation differences on foreign operations	(30)	132	189
<b>Other comprehensive income for the period, net of tax</b>	<b>(29)</b>	131	180
<b>Total comprehensive income for the period</b>	<b>484</b>	603	1,056
<b>Total comprehensive income attributable to:</b>			
The Company's shareholders	464	502	925
Non-controlling interests	20	101	131
	<b>484</b>	603	1,056

Note: Other than cash flow hedges as highlighted above, the items shown within other comprehensive income have no tax effect.

# Consolidated Statement of Financial Position

at 30th June 2012 – unaudited

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	Note	30th June 2012 HK\$M	31st December 2011 HK\$M
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	4,829	4,893
Leasehold land and land use rights	8	363	370
Intangible assets	9	543	560
Jointly controlled companies	10	1,148	1,100
Derivative financial instruments	12	–	3
Deferred tax assets		76	69
Retirement benefit assets	11	330	320
		<b>7,289</b>	<b>7,315</b>
<b>Current assets</b>			
Stocks of aircraft parts		296	310
Work in progress		231	143
Trade and other receivables	13	1,007	993
Derivative financial instruments	12	–	5
Cash and cash equivalents		1,115	1,320
Short-term deposits		12	24
		<b>2,661</b>	<b>2,795</b>
<b>Current liabilities</b>			
Trade and other payables	14	1,043	1,157
Derivative financial instruments	12	4	–
Taxation payable		51	18
Short-term loans		142	154
Long-term loans due within one year		658	1,003
		<b>1,898</b>	<b>2,332</b>
<b>Net current assets</b>		<b>763</b>	<b>463</b>
<b>Total assets less current liabilities</b>		<b>8,052</b>	<b>7,778</b>
<b>Non-current liabilities</b>			
Long-term loans		874	293
Receipt in advance		53	58
Deferred income		11	–
Deferred tax liabilities		330	336
Derivative financial instruments	12	14	1
		<b>1,282</b>	<b>688</b>
<b>NET ASSETS</b>		<b>6,770</b>	<b>7,090</b>
<b>EQUITY</b>			
Share capital	15	166	166
Reserves	16	5,485	5,909
<b>Equity attributable to the Company's shareholders</b>		<b>5,651</b>	<b>6,075</b>
<b>Non-controlling interests</b>		<b>1,119</b>	<b>1,015</b>
<b>TOTAL EQUITY</b>		<b>6,770</b>	<b>7,090</b>

# Consolidated Statement of Cash Flows

for the six months ended 30th June 2012 – unaudited

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	Six months ended 30th June		Year ended 31st December
	2012 HK\$M	2011 HK\$M	2011 HK\$M
<b>Operating activities</b>			
Cash generated from operations	450	473	796
Interest paid	(15)	(12)	(25)
Interest received	9	8	17
Tax paid	(49)	(47)	(163)
<b>Net cash generated from operating activities</b>	<b>395</b>	<b>422</b>	<b>625</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(199)	(210)	(532)
Additions of intangible assets	–	(1)	–
Proceeds from disposals of property, plant and equipment	3	1	3
Purchase of shares in a jointly controlled company	(4)	–	(9)
Loans to a jointly controlled company	(4)	(23)	(89)
Repayment of loans by a jointly controlled company	1	30	41
Dividends received from jointly controlled companies	225	210	420
Distributions to non-controlling interests on disposal of subsidiary companies	–	–	(5)
Net decrease in short-term deposits other than cash and cash equivalents	12	58	133
<b>Net cash generated from/(used in) investing activities</b>	<b>34</b>	<b>65</b>	<b>(38)</b>
<b>Net cash inflow before financing activities</b>	<b>429</b>	<b>487</b>	<b>587</b>
<b>Financing activities</b>			
Proceeds from loans	428	24	151
Repayment of loans	(196)	(122)	(129)
Capital contribution from non-controlling interests	85	–	–
Advance from a non-controlling interest	–	24	24
Repayment of advance from a non-controlling interest	(24)	–	–
Dividends paid to the Company's shareholders	(882)	(274)	(390)
Dividends paid to non-controlling interests	(38)	(33)	(33)
<b>Net cash used in financing activities</b>	<b>(627)</b>	<b>(381)</b>	<b>(377)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(198)</b>	<b>106</b>	<b>210</b>
Cash and cash equivalents at 1st January	1,320	1,098	1,098
Currency adjustment	(7)	9	12
<b>Cash and cash equivalents at end of the period</b>	<b>1,115</b>	<b>1,213</b>	<b>1,320</b>

# Consolidated Statement of Changes in Equity

for the six months ended 30th June 2012 – unaudited

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		Attributable to the Company's shareholders				Non-controlling interests HK\$M	Total equity HK\$M
Note		Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M		
	<b>At 1st January 2012</b>	<b>166</b>	<b>5,744</b>	<b>165</b>	<b>6,075</b>	<b>1,015</b>	<b>7,090</b>
	Profit for the period	–	482	–	482	31	513
	Other comprehensive income	–	–	(18)	(18)	(11)	(29)
	<b>Total comprehensive income for the period</b>	<b>–</b>	<b>482</b>	<b>(18)</b>	<b>464</b>	<b>20</b>	<b>484</b>
	Dividends paid	–	(882)	–	(882)	(6)	(888)
	Change in composition of Group	–	(6)	–	(6)	90	84
	<b>At 30th June 2012</b>	<b>166</b>	<b>5,338</b>	<b>147</b>	<b>5,651</b>	<b>1,119</b>	<b>6,770</b>
		Attributable to the Company's shareholders				Non-controlling interests HK\$M	Total equity HK\$M
		Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M		
	At 1st January 2011	166	5,336	61	5,563	921	6,484
	Profit for the period	–	425	–	425	47	472
	Other comprehensive income	–	–	77	77	54	131
	Total comprehensive income for the period	–	425	77	502	101	603
	Dividend paid	–	(274)	–	(274)	–	(274)
	At 30th June 2011	166	5,487	138	5,791	1,022	6,813

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial information are consistent with those described in the 2011 annual accounts.

The HKAS and Hong Kong Financial Reporting Standards amendments effective from 1st July 2011 are not relevant to the Group's operations. They have had no effect on the Group's interim accounts.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In 2012, the Group reviewed the anticipated useful lives of rotatable spares. As a result, their depreciation rate has been adjusted from 7% per annum to 5% per annum. The effect of this change on depreciation expense in the year and in future years is a decrease in the annual charge of HK\$8 million.

## 3. FINANCIAL RISK MANAGEMENT

The Group is exposed to a number of financial risks through the normal course of business. In the view of the Board, the principal financial risks identified under the heading “Financial risk management” set out on pages 47 to 50 of the Annual Report for the year ended 31st December 2011, remain applicable for the six months ended 30th June 2012, and are expected to continue to be the same for the remaining six months of the current financial year.

#### 4. SEGMENT INFORMATION

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

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

	HAECO HK\$M	TAEKO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
<b>Six months ended 30th June 2012</b>								
External turnover	1,765	815	231	5,725	(5,725)	88	–	2,899
Inter-segment turnover	20	1	–	2	(2)	8	(29)	–
Total turnover	1,785	816	231	5,727	(5,727)	96	(29)	2,899
Operating profit/(loss)	245	104	(38)	552	(552)	5	–	316
Finance income	3	6	2	–	–	–	(2)	9
Finance charges	(4)	(2)	(7)	(2)	2	(4)	2	(15)
Share of after-tax results of jointly controlled companies	–	–	–	108	148	–	17	273
Profit/(loss) before taxation	244	108	(43)	658	(402)	1	17	583
Taxation (charge)/credit	(41)	(27)	1	(90)	90	(1)	(2)	(70)
Profit/(loss) for the period	203	81	(42)	568	(312)	–	15	513
Depreciation and amortisation	97	75	33	42	(42)	16	–	221
Provision for impairment of stock and rotatable spares	16	2	–	–	–	–	–	18
<b>Six months ended 30th June 2011</b>								
External turnover	1,641	826	27	4,224	(4,224)	50	–	2,544
Inter-segment turnover	37	2	–	3	(3)	10	(49)	–
Total turnover	1,678	828	27	4,227	(4,227)	60	(49)	2,544
Operating profit/(loss)	236	167	(46)	427	(427)	(12)	–	345
Finance income	1	5	2	–	–	–	–	8
Finance charges	(2)	(2)	(5)	(1)	1	(3)	–	(12)
Share of after-tax results of jointly controlled companies	–	–	–	76	118	–	10	204
Profit/(loss) before taxation	235	170	(49)	502	(308)	(15)	10	545
Taxation (charge)/credit	(40)	(36)	1	(71)	71	2	–	(73)
Profit/(loss) for the period	195	134	(48)	431	(237)	(13)	10	472
Depreciation and amortisation	98	59	29	34	(34)	17	–	203
Provision for/(written back of) impairment of stock and rotatable spares	1	2	–	(1)	1	–	–	3



**4. SEGMENT INFORMATION** (continued)

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
<i>Year ended 31st December 2011</i>								
External turnover	3,307	1,581	170	9,404	(9,404)	113	–	5,171
Inter-segment turnover	71	4	–	7	(7)	19	(94)	–
<b>Total turnover</b>	<b>3,378</b>	<b>1,585</b>	<b>170</b>	<b>9,411</b>	<b>(9,411)</b>	<b>132</b>	<b>(94)</b>	<b>5,171</b>
Operating profit/(loss)	456	173	(80)	930	(930)	(18)	1	532
Finance income	5	13	3	1	(1)	–	(3)	18
Finance charges	(5)	(4)	(12)	(3)	3	(7)	3	(25)
Share of after-tax results of jointly controlled companies	–	–	–	149	266	–	20	435
Profit/(loss) before taxation	456	182	(89)	1,077	(662)	(25)	21	960
Taxation (charge)/credit	(75)	(12)	2	(155)	155	5	(4)	(84)
<b>Profit/(loss) for the year</b>	<b>381</b>	<b>170</b>	<b>(87)</b>	<b>922</b>	<b>(507)</b>	<b>(20)</b>	<b>17</b>	<b>876</b>
Depreciation and amortisation	194	132	62	71	(71)	33	–	421
Provision for/(written back of) impairment of stock and rotatable spares	28	4	–	(2)	2	–	–	32

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
<i>At 30th June 2012</i>								
<b>Total segment assets</b>	<b>4,085</b>	<b>2,926</b>	<b>1,503</b>	<b>3,720</b>	<b>(3,720)</b>	<b>442</b>	<b>(185)</b>	<b>8,771</b>
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	<b>84</b>	<b>50</b>	<b>13</b>	<b>50</b>	<b>(50)</b>	<b>24</b>	<b>–</b>	<b>171</b>
<b>Total segment liabilities</b>	<b>1,350</b>	<b>747</b>	<b>884</b>	<b>2,081</b>	<b>(2,081)</b>	<b>353</b>	<b>(154)</b>	<b>3,180</b>
<i>At 31st December 2011</i>								
Total segment assets	4,683	2,955	1,369	3,825	(3,825)	392	(420)	8,979
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	236	259	87	142	(142)	24	–	606
<b>Total segment liabilities</b>	<b>1,145</b>	<b>770</b>	<b>1,095</b>	<b>2,275</b>	<b>(2,275)</b>	<b>400</b>	<b>(390)</b>	<b>3,020</b>

**4. SEGMENT INFORMATION** (continued)

	30th June 2012 HK\$M	31st December 2011 HK\$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	<b>8,771</b>	8,979
Unallocated: investment in jointly controlled companies	<b>1,148</b>	1,100
Unallocated: intangible assets - goodwill	<b>31</b>	31
Total assets	<b>9,950</b>	10,110

Reportable segments' liabilities are equal to total liabilities.

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

**5. NET FINANCE CHARGES**

	Six months ended 30th June		Year ended 31st December
	2012 HK\$M	2011 HK\$M	2011 HK\$M
Finance income:			
Short-term deposits and bank balances	<b>6</b>	8	16
Loans due from jointly controlled companies	<b>3</b>	–	2
Finance charges:			
Bank loans	<b>(15)</b>	(12)	(25)
	<b>(6)</b>	(4)	(7)

**6. TAXATION**

	Six months ended 30th June		Year ended 31st December
	2012 HK\$M	2011 HK\$M	2011 HK\$M
Current taxation:			
Hong Kong profits tax	<b>46</b>	25	64
Overseas taxation	<b>34</b>	44	32
Under-provisions in prior years	<b>2</b>	27	20
	<b>82</b>	96	116
Deferred taxation:			
Increase in deferred tax assets	<b>(7)</b>	(3)	(24)
Decrease in deferred tax liabilities	<b>(5)</b>	(20)	(8)
	<b>70</b>	73	84

**6. TAXATION** (continued)

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of jointly controlled companies' tax charges for the six months ended 30th June 2012 of HK\$47 million (30th June 2011: HK\$39 million; year ended 31st December 2011: HK\$91 million) is included in the share of after-tax results of jointly controlled companies shown in the consolidated income statement.

**7. EARNINGS PER SHARE (BASIC AND DILUTED)**

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2012 of HK\$482 million (30th June 2011: HK\$425 million; 31st December 2011: HK\$821 million) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2011: 166,324,850; 31st December 2011: 166,324,850).

**8. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS**

	Property, plant and equipment HK\$M	Leasehold land and land use rights HK\$M
Net book value:		
At 1st January 2012	4,893	370
Translation differences	(19)	(3)
Additions and transfers	169	2
Disposals	(2)	–
Depreciation and amortisation	(199)	(6)
Impairment	(13)	–
<b>At 30th June 2012</b>	<b>4,829</b>	<b>363</b>

**9. INTANGIBLE ASSETS**

	Goodwill HK\$M	Technical licences HK\$M	Others HK\$M	Total HK\$M
Net book value:				
At 1st January 2012	31	492	37	560
Translation differences	–	(1)	–	(1)
Amortisation	–	(14)	(2)	(16)
<b>At 30th June 2012</b>	<b>31</b>	<b>477</b>	<b>35</b>	<b>543</b>

## 10. JOINTLY CONTROLLED COMPANIES

The Group's share of the results, assets and liabilities of the jointly controlled companies are as follows:

	HAESL			Others			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2012 HK\$M	2011 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M	2011 HK\$M
Turnover	<b>2,577</b>	1,902	4,232	<b>257</b>	192	402	<b>2,834</b>	2,094	4,634
Operating expenses	<b>(2,328)</b>	(1,710)	(3,813)	<b>(229)</b>	(172)	(355)	<b>(2,557)</b>	(1,882)	(4,168)
Operating profit	<b>249</b>	192	419	<b>28</b>	20	47	<b>277</b>	212	466
Net finance charges	<b>(1)</b>	–	(1)	<b>(5)</b>	(3)	(6)	<b>(6)</b>	(3)	(7)
Share of after-tax results of jointly controlled companies	<b>49</b>	34	67	–	–	–	<b>49</b>	34	67
Profit before taxation	<b>297</b>	226	485	<b>23</b>	17	41	<b>320</b>	243	526
Taxation	<b>(41)</b>	(32)	(70)	<b>(6)</b>	(7)	(21)	<b>(47)</b>	(39)	(91)
Profit for the period	<b>256</b>	194	415	<b>17</b>	10	20	<b>273</b>	204	435
Dividends paid and/or declared	<b>212</b>	199	380	<b>9</b>	9	46	<b>221</b>	208	426
Net assets employed:									
Non-current assets	<b>582</b>	572	575	<b>344</b>	369	356	<b>926</b>	941	931
Current assets	<b>1,198</b>	889	1,249	<b>289</b>	228	266	<b>1,487</b>	1,117	1,515
	<b>1,780</b>	1,461	1,824	<b>633</b>	597	622	<b>2,413</b>	2,058	2,446
Current liabilities	<b>(762)</b>	(525)	(851)	<b>(261)</b>	(220)	(246)	<b>(1,023)</b>	(745)	(1,097)
Non-current liabilities	<b>(175)</b>	(171)	(173)	<b>(69)</b>	(72)	(78)	<b>(244)</b>	(243)	(251)
	<b>843</b>	765	800	<b>303</b>	305	298	<b>1,146</b>	1,070	1,098
Financed by:									
Shareholders' equity	<b>843</b>	765	800	<b>303</b>	305	298	<b>1,146</b>	1,070	1,098

## 11. RETIREMENT BENEFITS

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

	Local Scheme HK\$M	Expatriate Scheme HK\$M	Total HK\$M
At 1st January 2012	<b>263</b>	<b>57</b>	<b>320</b>
Increase due to:			
Total (expense charged)/income credited	<b>(15)</b>	<b>1</b>	<b>(14)</b>
Contributions paid	<b>24</b>	–	<b>24</b>
<b>At 30th June 2012</b>	<b>272</b>	<b>58</b>	<b>330</b>

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	30th June 2012 HK\$M	31st December 2011 HK\$M	30th June 2012 HK\$M	31st December 2011 HK\$M
Forward foreign exchange contracts				
– not qualifying as hedges	–	8	18	1
Total	–	8	18	1
Less: non-current portion				
Forward foreign exchange contracts				
– not qualifying as hedges	–	3	14	1
	–	3	14	1
Current portion	–	5	4	–

The notional principal amounts of the outstanding forward foreign exchange contracts at 30th June 2012 were HK\$1,315 million (31st December 2011: HK\$1,171 million).

## 13. TRADE AND OTHER RECEIVABLES

The Group has policies in place to evaluate credit risk when accepting new business and limit its credit exposure to any individual customer. The credit terms given to customers vary and are generally based on their individual financial strength. Credit evaluations of trade receivables are performed periodically to minimise credit risk associated with receivables.

	30th June 2012 HK\$M	31st December 2011 HK\$M
Trade receivables	416	450
Less: Provision for impairment of receivables	(6)	(5)
	410	445
Amounts due from jointly controlled companies	116	113
Amounts due from related parties	196	183
Other receivables and prepayments	285	252
	1,007	993
The ageing analysis of trade receivables is as follows:		
Current	198	251
Up to 3 months overdue	170	167
3 to 6 months overdue	24	14
Over 6 months overdue	24	18
	416	450

**14. TRADE AND OTHER PAYABLES**

	30th June 2012 HK\$M	31st December 2011 HK\$M
Trade payables	107	88
Amounts due to jointly controlled companies	4	1
Amounts due to related parties	27	41
Interest-bearing advance from a related party	–	24
Accrued capital expenditure	73	94
Accruals	611	700
Other payables	221	209
	<b>1,043</b>	<b>1,157</b>
The ageing analysis of trade payables is as follows:		
Current	96	75
Up to 3 months overdue	9	12
3 to 6 months overdue	2	1
	<b>107</b>	<b>88</b>

**15. SHARE CAPITAL**

During the period, no purchase, sale or redemption of the Company's shares has been effected on the Hong Kong Stock Exchange. At 30th June 2012, 166,324,850 shares were in issue (31st December 2011: 166,324,850 shares).

**16. RESERVES**

	Revenue reserve HK\$M	Capital redemption reserve HK\$M	Exchange translation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2012	5,744	19	148	(2)	5,909
Total comprehensive income for the period	482	–	(19)	1	464
2011 second interim dividend	(316)	–	–	–	(316)
2011 special dividend	(566)	–	–	–	(566)
Change in composition of Group	(6)	–	–	–	(6)
<b>At 30th June 2012</b>	<b>5,338</b>	<b>19</b>	<b>129</b>	<b>(1)</b>	<b>5,485</b>

**17. CAPITAL COMMITMENTS**

	30th June 2012 HK\$M	31st December 2011 HK\$M
Contracted but not provided for in the financial statements	104	111
Authorised by Directors but not contracted for	376	444
	<b>480</b>	<b>555</b>

## 18. FINANCIAL GUARANTEES

The Group has guaranteed loans of a jointly controlled company. At 30th June 2012, the face values of liabilities guaranteed were HK\$54 million (31st December 2011: HK\$55 million).

## 19. TRANSACTION WITH NON-CONTROLLING INTEREST

On 29th June 2012, the Group completed the additional share capital injection of HK\$74 million to TALSCO. After the capital injection, the Group's shareholding in TALSCO increased from 55.86% to 62.14%. The effect of changes in the ownership interest of TALSCO on the equity attributable to the Company's shareholders during the period is summarised as follows:

	30th June 2012 HK\$M
Consideration paid for additional shareholding	13
Less: carrying amount of non-controlling interests acquired	7
Excess of consideration paid recognised within equity	<u>6</u>

The effect of this transaction with the non-controlling interests on the equity attributable to the Company's shareholders for the period ended 30th June 2012 is as follows:

	Six months ended 30th June 2012 HK\$M
Total comprehensive income for the period attributable to the Company's shareholders	464
Changes in equity attributable to the Company's shareholders arising from the acquisition of additional interest in a subsidiary company	<u>(6)</u>
	<u>458</u>

## 20. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

The Group has a number of transactions with its related parties and connected persons. All trading transactions are conducted in the normal course of business at prices and on terms no less favourable to the Group than those charged to/by and contracted with other third party customers/suppliers of the Group. The aggregated transactions which are material to the Group and which have not been disclosed elsewhere in the interim report are summarised below:

Note	Jointly controlled companies			Immediate holding company			Other related parties			Total			
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	
	2012 HK\$M	2011 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M	2011 HK\$M	
Revenue from provision of services:													
Cathay Pacific Airways Limited Group	a	-	-	-	-	-	1,206	1,113	2,287	1,206	1,113	2,287	
Other revenue	b	36	43	82	-	-	-	-	-	36	43	82	
		<b>36</b>	<b>43</b>	<b>82</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,206</b>	<b>1,113</b>	<b>2,287</b>	<b>1,242</b>	<b>1,156</b>	<b>2,369</b>
Purchases:													
Costs payable to John Swire & Sons (H.K.) Limited under services agreement													
- Service fees payable during the period	a	-	-	-	-	-	13	14	24	13	14	24	
- Expenses reimbursed at cost	a	-	-	-	-	-	31	30	51	31	30	51	
Subtotal	a	-	-	-	-	-	44	44	75	44	44	75	
- Share of administrative services		-	-	-	-	-	1	1	4	1	1	4	
Total		-	-	-	-	-	45	45	79	45	45	79	
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		-	-	-	-	-	2	2	5	2	2	5	
Risk management service		-	-	-	1	1	2	-	-	1	1	2	
Spares purchases from Cathay Pacific Airways Limited Group		-	-	-	-	-	14	12	27	14	12	27	
Other purchases	c	4	3	8	-	-	2	11	10	27	15	13	37
		<b>4</b>	<b>3</b>	<b>8</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>72</b>	<b>69</b>	<b>138</b>	<b>77</b>	<b>73</b>	<b>150</b>

**Notes:**

a. These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.

b. Other revenue from jointly controlled companies mainly came from the provision to HAESL of engine component repairs on a commercial arm's length basis and of certain administrative services charged at cost.

c. Purchases from jointly controlled companies comprised mainly aircraft component overhaul charges by HAESL.

d. Amounts due from and due to jointly controlled companies and other related parties at 30th June 2012 are disclosed in note 13 and note 14 to the accounts.



## CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the accounting period covered by the interim report with the following exceptions which it believes do not benefit shareholders:

- **Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee.** The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by both the potential Director and the Board as to suitability for the role.

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

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

The interim results have been reviewed by the Audit Committee of the Company.

## DIRECTORS’ PARTICULARS

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

1. L.K.K. Leong retired as a Non-Executive Director of Tai Ping Carpets International Limited with effect from the conclusion of their Annual General Meeting held on 17th May 2012.
2. L.K.K. Leong was appointed as Deputy Chief Executive Officer, and ceased to be Finance and Business Development Director, of MTR Corporation Limited with effect from 16th July 2012.

## DIRECTORS' INTERESTS

At 30th June 2012, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Hong Kong Aircraft Engineering Company Limited and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited, Swire Pacific Limited and Swire Properties Limited:

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
<b>Hong Kong Aircraft Engineering Company Limited</b>						
<b>Ordinary Shares</b>						
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	5,223,811	5,223,811	3.14	1
D.C.L. Tong	20,000	–	–	20,000	0.01	
<b>John Swire &amp; Sons Limited</b>						
<b>Ordinary Shares of £1</b>						
M.B. Swire	3,140,523	–	19,222,920	22,363,443	22.36	2
<b>8% Cum. Preference Shares of £1</b>						
M.B. Swire	846,476	–	5,655,441	6,501,917	21.67	2
<b>Swire Pacific Limited</b>						
<b>'A' shares</b>						
P.A. Johansen	31,500	–	–	31,500	0.0035	
C.D. Pratt	51,000	–	–	51,000	0.0056	
M.B. Swire	58,791	–	–	58,791	0.0065	2
<b>'B' shares</b>						
P.A. Johansen	200,000	–	–	200,000	0.0067	
C.D. Pratt	100,000	–	–	100,000	0.0033	
M.B. Swire	2,241,483	–	3,938,554	6,180,037	0.2063	2

Swire Properties Limited	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
Ordinary Shares	Personal	Family				
P.A. Johansen	50,050	–	–	50,050	0.0009	
C.D. Pratt	49,700	–	–	49,700	0.0008	
M.B. Swire	354,961	–	551,397	906,358	0.0155	2

## Notes:

1. The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.
2. M.B. Swire is a trustee of trusts which held 10,766,080 ordinary shares and 3,121,716 preference shares in John Swire & Sons Limited, 3,037,822 'B' shares in Swire Pacific Limited and 425,295 shares in Swire Properties Limited included under "Trust interest" and does not have any beneficial interest in those shares.

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

## SUBSTANTIAL SHAREHOLDERS' AND OTHER INTERESTS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 30th June 2012, the Company had been notified of the following interests in the Company's shares:

	Number of shares	Percentage of issued capital (%)	Type of interest	Note
1. Swire Pacific Limited	124,723,637	74.99	Beneficial owner	1
2. John Swire & Sons Limited	124,723,637	74.99	Attributable interest	2

## Notes:

As at 30th June 2012:

1. Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner.
2. John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 124,723,637 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's interests in shares of Swire Pacific Limited representing approximately 44.16% of the issued share capital and approximately 58.98% of the voting rights.

# Financial Calendar and Information for Investors

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## FINANCIAL CALENDAR 2012

Interim Report available to shareholders	22nd August 2012
Shares traded ex-dividend	29th August 2012
Register of members closed for first interim dividend entitlement	31st August 2012
Payment of 2012 first interim dividend	18th September 2012
Annual results announcement	March 2013
Annual General Meeting	May 2013

## REGISTERED OFFICE

Hong Kong Aircraft Engineering Company Limited  
33rd Floor, One Pacific Place  
88 Queensway  
Hong Kong

## REGISTRARS

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong  
Website: [www.computershare.com](http://www.computershare.com)

## DEPOSITARY

The Bank of New York Mellon  
P.O. Box 358516  
Pittsburgh, PA 15252-8516  
USA  
Website: [www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)  
E-mail: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Tel: Calls within USA – toll free: 1-888-BNY-ADRS  
International callers: 1-201-680-6825

## STOCK CODES

Hong Kong Stock Exchange 00044  
ADR HKAEY  
CUSIP Reference Number 438569105

## AUDITORS

PricewaterhouseCoopers

## PUBLIC AFFAIRS

E-mail: [corpcomm@haeco.com](mailto:corpcomm@haeco.com)  
Tel: (852) 2767-6639  
Fax: (852) 2260-6998  
Website: [www.haeco.com](http://www.haeco.com)