



Hong Kong Aircraft Engineering Company Limited

2006 INTERIM REPORT

HIGHLIGHTS

| | Six months ended 30th June | | Year ended 31st December |
|---|-------------------------------|---------|-----------------------------|
| | 2006 | 2005 | 2005 |
| (in HK\$ Million) | | | |
| Turnover | 1,838 | 1,481 | 3,121 |
| Net operating profit | 386 | 256 | 508 |
| Share of after-tax results of jointly controlled companies | | | |
| – Hong Kong Aero Engine Services Limited | 125 | 100 | 229 |
| – Other jointly controlled companies | 24 | 17 | 38 |
| Profit attributable to the Company's shareholders | 398 | 289 | 618 |
| Net cash generated from operating activities | 449 | 281 | 843 |
| Net cash inflow before financing activities | 251 | 17 | 575 |
| Total equity | 4,382 | 3,815 | 4,098 |
| (number of shares in '000) | | | |
| Average number of shares in issue | 166,325 | 166,325 | 166,325 |
| (in HK\$) | | | |
| Earnings per share attributable to the Company's shareholders (basic and diluted) | 2.39 | 1.74 | 3.72 |
| Dividends per share | 0.65 | 0.50 | 1.60 |
| Special dividend per share | 2.50 | – | – |
| Equity attributable to the Company's shareholders per share | 22.43 | 19.66 | 21.12 |

Note: In April 2006, the Group acquired an additional 2% interest in Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") increasing its shareholding to 56.55%.

Contents

Highlights

- 1 Chairman's Statement
- 2 Review of Operations
- 4 Consolidated Accounts
- 8 Notes to the Consolidated Accounts
- 14 Information Provided in Accordance with the Listing Rules
- 16 Financial Calendar and Information for Investors

CHAIRMAN'S STATEMENT

CONSOLIDATED RESULTS

Profit attributable to the Company's shareholders for the first half of 2006 was HK\$398 million. This is a 38% increase over that of the prior year and is driven primarily by growth of heavy maintenance operations in Hong Kong and Xiamen.

Your Directors have declared an interim dividend of HK\$0.65 per share (2005: HK\$0.50) together with a special dividend of HK\$2.50 per share representing cash surplus to immediate requirements. Both dividends are payable on 26th September 2006 to shareholders registered at the close of business on 15th September 2006. The share register will be closed from 11th to 15th September 2006, both dates inclusive.

OPERATIONS

The Group is running its current facilities at near to full capacity. It is making good progress in expanding its operations:

- Taikoo (Xiamen) Aircraft Engineering Company Limited's ("TAECO") fourth hangar, which opened at the start of this year, is already well utilised and the construction of its fifth hangar is on track to open in mid 2007. A sixth hangar is also to be constructed with an opening planned by the end of 2008. HAECO acquired an additional 2% of the equity of TAECO in April 2006 to bring its interest to 56.55%.

- HAECO's second hangar at Hong Kong International Airport is scheduled to open at the end of 2006. The Company has also reached agreement with the Hong Kong Airport Authority to lease additional land and, subject to certain conditions, extend its franchise from 2031 to 2036. This will allow it to build an additional double bay hangar which is planned to start operation in the first half of 2009.
- Hong Kong Aero Engine Services Limited's ("HAESL") engine-build workshop extension will open in the second half of 2007.
- HAECO and TAECO are working with the Guangdong Airport Management Corporation on a feasibility study for providing maintenance at Guangzhou's Baiyun Airport.

Staff are being recruited and trained to match this expansion.

PROSPECTS

Demand for the Group's services remains firm and I expect that our facilities will continue to be well utilised during the second half of the year.

David Turnbull

Chairman

Hong Kong, 8th August 2006

REVIEW OF OPERATIONS

The Company's profit attributable to shareholders comprises:

| | Six months ended 30th June | | |
|------------------------------------|----------------------------|---------------|--------|
| | 2006 HK\$M | 2005 HK\$M | Change |
| HAECO Hong Kong operations | 143 | 118 | 21% |
| Share of: | | | |
| TAECO | 110 | 56 | 96% |
| HAESL | 126 | 100 | 26% |
| Other jointly controlled companies | 19 | 15 | 27% |
| | 398 | 289 | 38% |

HAECO HONG KONG OPERATIONS

HAECO's Hong Kong operations comprise heavy maintenance in hangars, line maintenance at the passenger and cargo terminals at Hong Kong International Airport and component overhaul at Tseung Kwan O, plus inventory technical management.

Line maintenance movements handled grew by 3% over the first half of 2005 with an average of 245 aircraft per day.

Heavy maintenance had a busy first half with manhours sold increasing by 9% over the first half of 2005 to 0.89 million manhours. 62% of the work was from non Hong Kong based carriers.

Component repair activity at the Tseung Kwan O facility totalled 0.12 million manhours, in line with last year.

HAECO's inventory management service continues to expand with HK\$186 million assets under management supporting 27 aircraft at the end of June 2006.

Construction of HAECO's second hangar at Hong Kong International Airport is progressing towards completion at the end of the year. HAECO has entered into an agreement with the Hong Kong Airport Authority to lease an additional 26,550 square metres of land, sufficient to provide for a third and fourth hangar. Construction of the third hangar, which will accommodate two wide-bodied aircraft, is planned to start in 2007 and be completed in early 2009. No decision has been made on the timing of a fourth hangar. The agreement with the Hong Kong Airport Authority also, subject to certain conditions, extends HAECO's franchise from 2031 to 2036.

TAIKOO (XIAMEN) AIRCRAFT ENGINEERING COMPANY LIMITED

Heavy maintenance manhours sold by TAECO increased by 46% over prior year to 1.75 million due to strong demand and the addition of a fourth double bay hangar. The second and third lines of Boeing 747-400 passenger aircraft to freighter conversions were started during the period. These three lines will run for at least five years, given the expected demand for Boeing 747-400 conversions.

Line maintenance operations in Xiamen, Shanghai and Beijing continued to expand, with aircraft handled averaging 37 per day.

Construction work on the fifth hangar is on track for opening in mid 2007. A sixth hangar has recently been approved in light of the continued demand from long-term customers for heavy maintenance and it is expected that this will open by the end of 2008.

ENGINE OVERHAUL

Hong Kong Aero Engine Services Limited ("HAESL") (45% owned) and its associate, Singapore Aero Engine Services Pte. Limited (9% owned), achieved good results for the period due to both higher work volume and a more favourable work mix.

HAESL has committed HK\$85 million to expand the capacity of its engine build workshop facilities. The new facility is planned to open in late 2007.

JOINTLY CONTROLLED COMPANIES

Jointly controlled companies in Mainland China and Hong Kong performed satisfactorily during the period.

ENVIRONMENT

The Group continues to monitor closely the impact of its operations on the environment and make every effort to reduce the extent of this impact. Details of this activity are in its environmental report on its website. The Company has received an energy efficiency award from the Hong Kong Government.

STAFF

The change in the Group's headcount during the period was:

| | 30th June 2006 | 31st December 2005 | Change |
|---|-------------------|-----------------------|-----------|
| HAECO | 3,819 | 3,757 | 2% |
| TAECO | 3,410 | 2,945 | 16% |
| HAESL | 764 | 750 | 2% |
| Other jointly controlled companies in which HAECO and TAECO own more than 20% | 755 | 731 | 3% |
| | 8,748 | 8,183 | 7% |

FINANCIAL REVIEW

NET ASSETS

The Group's non-current net assets increased from HK\$3,495 million to HK\$3,690 million mainly due to capital expenditure of HK\$286 million offset by HK\$113 million depreciation and amortisation. The capital expenditure was primarily on the fifth hangar in Xiamen and second hangar in Hong Kong. The Group's net current assets, excluding liquid funds, remained low at HK\$74 million (31st December 2005 HK\$45 million).

NET LIQUID FUNDS AND FINANCING

The Group's deposits and net cash equivalents totalled HK\$942 million at 30th June 2006. The Group is generating cash at a rate in excess of its current reinvestment commitments and surplus funds are being returned to shareholders by way of a special dividend.

CURRENCY FLUCTUATIONS

The Group's income is substantially in HK dollars and US dollars and is matched by expenditure in the same currencies. The exception to this is TAECO which has substantial Renminbi expenditure and US dollar income. TAECO reduces its exposure to changes in the exchange rate of the Renminbi against the US dollar by retaining surplus funds in Renminbi and use of forward exchange contracts.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30th June 2006 – unaudited

| | Note | Six months ended 30th June | | Year ended 31st December | |
|--|------|-------------------------------|-----------------------------|-----------------------------|---------------|
| | | 2006 HK\$M | 2005 (restated) HK\$M | 2005 HK\$M | |
| Turnover | 4 | 1,838 | 1,481 | 3,121 | |
| Operating expenses: | | | | | |
| Staff remuneration and benefits | | (778) | (676) | (1,425) | |
| Cost of direct material and job expenses | | (415) | (316) | (680) | |
| Depreciation and amortisation | | (113) | (93) | (202) | |
| Insurance and utilities | | (55) | (51) | (107) | |
| Operating lease rentals – land and buildings | | (31) | (26) | (53) | |
| Repairs and maintenance | | (43) | (31) | (81) | |
| Other operating expenses | | (31) | (33) | (72) | |
| Operating profit | 4 | 372 | 255 | 501 | |
| Net finance income | 5 | 14 | 1 | 7 | |
| Net operating profit | | 386 | 256 | 508 | |
| Share of after-tax results of jointly controlled companies | 9 | 149 | 117 | 267 | |
| Profit before taxation | | 535 | 373 | 775 | |
| Taxation | 6 | (45) | (34) | (65) | |
| Profit for the period | | 490 | 339 | 710 | |
| Attributable to: | | | | | |
| The Company's shareholders | | 398 | 289 | 618 | |
| Minority interests | | 92 | 50 | 92 | |
| | | 490 | 339 | 710 | |
| Dividends | | | | | |
| Interim | | 108 | 83 | 83 | |
| Final – proposed | | – | – | 183 | |
| Special | | 416 | – | – | |
| | | 524 | 83 | 266 | |
| | | HK\$ | HK\$ | HK\$ | |
| Earnings per share attributable to the Company's shareholders (basic and diluted) | 7 | 2.39 | 1.74 | 3.72 | |
| | | 2006 | 2005 | | |
| | | Interim HK\$ | Interim HK\$ | Final HK\$ | Total HK\$ |
| Dividends per share | | 0.65 | 0.50 | 1.10 | 1.60 |
| Special dividend per share | | 2.50 | 0.00 | 0.00 | 0.00 |

CONSOLIDATED BALANCE SHEET

at 30th June 2006 – unaudited

| | Note | 30th June 2006 HK\$M | 31st December 2005 HK\$M |
|---|------|----------------------------|--------------------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 2,602 | 2,442 |
| Leasehold land and land use rights | 8 | 206 | 192 |
| Intangible assets | 8 | 5 | 6 |
| Jointly controlled companies | 9 | 700 | 671 |
| Retirement benefit assets | 10 | 169 | 177 |
| Deferred tax assets | | 8 | 7 |
| | | 3,690 | 3,495 |
| Current assets | | | |
| Stocks of aircraft parts | | 80 | 78 |
| Work in progress | | 186 | 88 |
| Debtors and prepayments | 11 | 378 | 464 |
| Amounts due from jointly controlled companies | | 16 | 13 |
| Deposits maturing after three months | | 83 | 86 |
| Short-term deposits and bank balances | | 957 | 809 |
| Derivative financial instruments | | 2 | – |
| | | 1,702 | 1,538 |
| Current liabilities | | | |
| Creditors and accruals | 11 | 553 | 578 |
| Amounts due to jointly controlled companies | | 1 | 3 |
| Short-term bank loans | | 98 | 18 |
| Taxation | | 32 | 17 |
| | | 684 | 616 |
| Net current assets | | 1,018 | 922 |
| Total assets less current liabilities | | 4,708 | 4,417 |
| Non-current liabilities | | | |
| Receipt in advance | | 117 | 122 |
| Deferred tax liabilities | | 209 | 197 |
| | | 326 | 319 |
| NET ASSETS | | 4,382 | 4,098 |
| Equity attributable to the Company's shareholders: | | | |
| Share capital | 12 | 166 | 166 |
| Reserves | 13 | 3,565 | 3,346 |
| | | 3,731 | 3,512 |
| Minority interests | | 651 | 586 |
| TOTAL EQUITY | | 4,382 | 4,098 |

CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June 2006 – unaudited

| | Six months ended 30th June | | Year ended 31st December |
|---|-------------------------------|---------------|-----------------------------|
| | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M |
| Operating activities | | | |
| Cash generated from operations | 456 | 293 | 867 |
| Interest paid | (1) | (4) | (7) |
| Interest received | 15 | 5 | 13 |
| Taxation paid | (21) | (13) | (30) |
| Net cash generated from operating activities | 449 | 281 | 843 |
| Investing activities | | | |
| Purchase of property, plant and equipment | (294) | (299) | (546) |
| Sale of property, plant and equipment | 2 | – | – |
| Acquisition of additional interest in a subsidiary company | (27) | – | – |
| Loans advanced to a jointly controlled company | – | – | (3) |
| Loan repaid by a jointly controlled company | 7 | – | – |
| Dividends received from jointly controlled companies | 112 | 50 | 318 |
| Net increase in short-term deposits maturing after three months | 2 | (15) | (37) |
| Net cash (used in)/generated from investing activities | (198) | (264) | (268) |
| Net cash inflow before financing activities | 251 | 17 | 575 |
| Financing activities | | | |
| Repayment of term loans | (50) | (3) | (100) |
| Drawing of bank loans | 130 | 43 | 18 |
| Dividends paid to the Company's shareholders | (183) | (128) | (211) |
| Net cash used in financing activities | (103) | (88) | (293) |
| Net increase in cash and cash equivalents | 148 | (71) | 282 |
| Cash and cash equivalents at 1st January | 809 | 527 | 527 |
| Cash and cash equivalents at end of the period | 957 | 456 | 809 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2006 – unaudited

| | Six months ended 30th June | | Year ended 31st December |
|---|-------------------------------|---------------|-----------------------------|
| | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M |
| Total equity at 1st January | 4,098 | 3,604 | 3,604 |
| Exchange differences and net expenses recognised directly in equity | 2 | – | (5) |
| Profit for the period | 490 | 339 | 710 |
| Total recognised income for the period | 492 | 339 | 705 |
| Dividends paid to the Company's shareholders | (183) | (128) | (211) |
| Dividends paid to minority interests | – | – | – |
| Acquisition of additional interest in a subsidiary company | (26) | – | – |
| Fair value gains/(losses), net of tax | 1 | – | – |
| Total equity at end of the period | 4,382 | 3,815 | 4,098 |
| Total recognised income for the period attributable to: | | | |
| The Company's shareholders | 398 | 289 | 618 |
| Minority interests | 92 | 50 | 92 |
| | 490 | 339 | 710 |

NOTES TO THE CONSOLIDATED ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) The unaudited consolidated accounts have been prepared on a basis consistent with the principal accounting policies adopted in the 2005 annual accounts with the addition of certain new standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRS”) issued and effective as at the time of preparing this information. These are:

HKAS 19 (amended 2005) “Actuarial Gains and Losses, Group Plans and Disclosures”

HKAS 39 (amended 2005) “Cashflow Hedge Accounting of Forecast Intragroup Transactions”

HKAS 39 (amended 2005) “The Fair Value Options”

HKAS 39 and HKFRS 4 (amended 2005) “Financial Guarantee Contracts”

HKFRS-Int 4 (amended 2005) “Determining whether an Arrangement contains a Lease”

The adoption of such standards or interpretations does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the first half of 2006.

(b) Certain comparative amounts have been reclassified to conform to the current year’s presentation. The change relates to a more meaningful reclassification among operating expense categories.

(c) The consolidated accounts have been prepared in accordance with the HKAS 34 “Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”). This consolidated financial information should be read in conjunction with the 2005 annual financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions as appropriate in the preparation of the accounts. 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 productive life of property, plant and equipment and the determination of tax.

3. MANAGEMENT OF FINANCIAL RISK FACTORS

The Group’s activities are exposed to movements of foreign currencies, fair value interest rate risk, credit risk and liquidity risk. These risks are reviewed periodically to ensure their impact on the Group’s financial performance is minimised through the use of forwards, options or other appropriate derivative financial instruments. It is the Group’s policy to use the above derivative instruments solely for the purpose of financial risk management.

4. SEGMENTAL INFORMATION

The Group is primarily engaged in the business of commercial aircraft overhaul, modification and maintenance in Hong Kong and Mainland China. It does not have other significant activity so no further business segmental information has been reported. A geographical segment analysis of the Group's financial information is provided as below. Financial summaries of the jointly controlled companies are provided under note 9.

Reporting by geographical segment:

| | Operating principally in Hong Kong | | | Operating in Mainland China | | | Inter-segment elimination | | | 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 |
| | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M |
| Turnover | 1,192 | 1,077 | 2,260 | 689 | 437 | 928 | (43) | (33) | (67) | 1,838 | 1,481 | 3,121 |
| Operating profit | 152 | 141 | 300 | 220 | 114 | 201 | | | | 372 | 255 | 501 |
| Net finance income/ (charges) | 14 | (1) | 3 | – | 2 | 4 | | | | 14 | 1 | 7 |
| Share of after-tax results of jointly controlled companies | 136 | 109 | 248 | 13 | 8 | 19 | | | | 149 | 117 | 267 |
| Profit before taxation | 302 | 249 | 551 | 233 | 124 | 224 | | | | 535 | 373 | 775 |
| Profit for the period | 278 | 227 | 504 | 212 | 112 | 206 | | | | 490 | 339 | 710 |
| Profit attributable to the Company's shareholders | 278 | 227 | 504 | 120 | 62 | 114 | | | | 398 | 289 | 618 |

Analysis of net assets and equity of the Group by geographical segment:

| | Operating principally in Hong Kong | | Operating in Mainland China | | Inter-segment elimination | | Total | |
|--|------------------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-------------------------|-----------------------------|
| | 30th June 2006 HK\$M | 31st December 2005 HK\$M | 30th June 2006 HK\$M | 31st December 2005 HK\$M | 30th June 2006 HK\$M | 31st December 2005 HK\$M | 30th June 2006 HK\$M | 31st December 2005 HK\$M |
| | Jointly controlled companies | 615 | 599 | 85 | 72 | – | – | 700 |
| Other assets | 2,976 | 2,962 | 1,764 | 1,439 | (48) | (39) | 4,692 | 4,362 |
| Long-term loan | – | – | – | – | – | – | – | – |
| Other liabilities | (731) | (773) | (327) | (201) | 48 | 39 | (1,010) | (935) |
| Net assets | 2,860 | 2,788 | 1,522 | 1,310 | – | – | 4,382 | 4,098 |
| Equity attributable to the Company's shareholders | 2,855 | 2,783 | 876 | 729 | – | – | 3,731 | 3,512 |
| Minority interests | 5 | 5 | 646 | 581 | – | – | 651 | 586 |
| Total equity | 2,860 | 2,788 | 1,522 | 1,310 | – | – | 4,382 | 4,098 |

5. NET FINANCE INCOME/(CHARGES)

| | Six months ended 30th June | | Year ended 31st December |
|-----------------------|-------------------------------|---------------|-----------------------------|
| | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M |
| Finance income | 15 | 5 | 14 |
| Interest expense: | | | |
| Short-term bank loans | (1) | – | (1) |
| Long-term loan | – | (4) | (6) |
| | 14 | 1 | 7 |

6. TAXATION

| | Six months ended 30th June | | Year ended 31st December |
|--|-------------------------------|---------------|-----------------------------|
| | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M |
| Current taxation: | | | |
| Hong Kong profits tax | 12 | 10 | 19 |
| Overseas tax | 23 | 8 | 14 |
| | 35 | 18 | 33 |
| Deferred taxation: | | | |
| Decrease/(increase) in deferred tax assets | (1) | 5 | 4 |
| Increase in deferred tax liabilities | 11 | 11 | 28 |
| | 45 | 34 | 65 |

Provision for Hong Kong profits tax has been made by the Company of HK\$12 million for the period ended 30th June 2006 (30th June 2005: HK\$10 million; 31st December 2005: HK\$19 million). Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the period. 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\$27 million for the period ended 30th June 2006 (30th June 2005: HK\$22 million; 31st December 2005: HK\$48 million).

7. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by reference to the profit attributable to the Company's shareholders for the period ended 30th June 2006 of HK\$398 million (30th June 2005: HK\$289 million; 31st December 2005: HK\$618 million) and to the weighted average 166,324,850 (30th June 2005: 166,324,850; 31st December 2005: 166,324,850) ordinary shares in issue during the period.

8. PROPERTY, PLANT AND EQUIPMENT, LEASEHOLD LAND AND LAND USE RIGHTS AND INTANGIBLE ASSETS

| | Property, plant and equipment HK\$M | Leasehold land and land use rights HK\$M | Intangible assets – computer software HK\$M |
|-------------------------------|--|---|--|
| Net book value: | | | |
| At 31st December 2005 | 2,442 | 192 | 6 |
| Additions and transfers | 277 | 17 | – |
| Disposals | (8) | – | – |
| Depreciation and amortisation | (109) | (3) | (1) |
| At 30th June 2006 | 2,602 | 206 | 5 |

9. JOINTLY CONTROLLED COMPANIES

Share of the financial results and positions of the jointly controlled companies for the period ended and at 30th June 2006 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 |
| | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M |
| Turnover | 1,151 | 980 | 2,124 | 115 | 89 | 201 | 1,266 | 1,069 | 2,325 |
| Operating expenses | (1,012) | (863) | (1,865) | (88) | (71) | (159) | (1,100) | (934) | (2,024) |
| Operating profit | 139 | 117 | 259 | 27 | 18 | 42 | 166 | 135 | 301 |
| Net finance income/ (charges) | 3 | 1 | 5 | – | – | – | 3 | 1 | 5 |
| Share of after-tax results of jointly controlled companies | 8 | 3 | 9 | – | – | – | 8 | 3 | 9 |
| Profit before taxation | 150 | 121 | 273 | 27 | 18 | 42 | 177 | 139 | 315 |
| Taxation | (25) | (21) | (44) | (3) | (1) | (4) | (28) | (22) | (48) |
| Profit for the period | 125 | 100 | 229 | 24 | 17 | 38 | 149 | 117 | 267 |
| Dividends paid | 104 | 50 | 299 | 8 | – | 19 | 112 | 50 | 318 |
| Funds employed: | | | | | | | | | |
| Non-current assets | 364 | 370 | 361 | 92 | 92 | 95 | 456 | 462 | 456 |
| Current assets | 522 | 529 | 504 | 117 | 94 | 110 | 639 | 623 | 614 |
| | 886 | 899 | 865 | 209 | 186 | 205 | 1,095 | 1,085 | 1,070 |
| Current liabilities | (267) | (180) | (269) | (98) | (87) | (101) | (365) | (267) | (370) |
| Non-current liabilities | (30) | (32) | (29) | – | – | – | (30) | (32) | (29) |
| | 589 | 687 | 567 | 111 | 99 | 104 | 700 | 786 | 671 |
| Financed by: | | | | | | | | | |
| Shareholders' equity and loans | 589 | 687 | 567 | 111 | 99 | 104 | 700 | 786 | 671 |

10. RETIREMENT BENEFITS

Movement in the assets recognised in the balance sheet:

| | Six months ended 30th June 2006 | | |
|-----------------------------|---------------------------------|-------------------------|-------------|
| | Local scheme HK\$M | Expatriate scheme HK\$M | Total HK\$M |
| At 31st December 2005 | 141 | 36 | 177 |
| Increase/(decrease) due to: | | | |
| Total expense | (25) | – | (25) |
| Contributions paid | 17 | – | 17 |
| At 30th June 2006 | 133 | 36 | 169 |

11. 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 any credit risk associated with receivables.

As at 30th June 2006, 94% of debtors (96% as at 31st December 2005) and 99% of creditors (98% as at 31st December 2005) were aged under six months.

12. SHARE CAPITAL

During the period under review, no purchase, sale or redemption of the shares of the Company has been effected by the Company or its subsidiary companies on the Hong Kong Stock Exchange. As at 30th June 2006, 166,324,850 shares were in issue (31st December 2005: 166,324,850 shares).

13. RESERVES

| | Six months ended 30th June 2006 | | | | Total HK\$M |
|---|---------------------------------|----------------------------------|------------------------|------------------------------|-------------|
| | Revenue reserve HK\$M | Capital redemption reserve HK\$M | Exchange reserve HK\$M | Cashflow hedge reserve HK\$M | |
| At 31st December 2005 | 3,331 | 19 | (4) | – | 3,346 |
| Profit attributable to the Company's shareholders | 398 | – | – | – | 398 |
| Previous year's final dividend | (183) | – | – | – | (183) |
| Recognised during the period | – | – | 3 | 1 | 4 |
| At 30th June 2006 | 3,546 | 19 | (1) | 1 | 3,565 |

14. CAPITAL COMMITMENTS FOR PROPERTY, PLANT AND EQUIPMENT

| | Six months ended 30th June 2006 | |
|---|---------------------------------|---------------|
| | Group HK\$M | Company HK\$M |
| Authorised by Directors but not contracted for | 1,023 | 236 |
| Contracted but not provided for in the accounts | 392 | 267 |
| | 1,415 | 503 |

Capital commitments are mainly related to construction of the second hangar at the Hong Kong International Airport by the Company, and the fifth and the sixth hangars at Xiamen, Mainland China by TAECO.

15. 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 similar to those charged to/by and contracted with other third party customers/suppliers of the Group. The aggregated transactions and balances which are material to the Group and which have not been disclosed elsewhere in the interim report are summarised below:

| | Note | Jointly controlled companies | | | Related parties other than jointly controlled companies | | | 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 |
| | | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M | 2006 HK\$M | 2005 HK\$M | 2005 HK\$M |
| Revenue from provision of services: | | | | | | | | | | |
| Line maintenance and total care package charges for AHK Air Hong Kong Limited | a | – | – | – | 16 | 12 | 28 | 16 | 12 | 28 |
| Cathay Pacific Airways Limited service agreements | a | – | – | – | 584 | – | – | 584 | – | – |
| Other revenue | b | 47 | 49 | 103 | 21 | 662 | 1,146 | 68 | 711 | 1,249 |
| | | 47 | 49 | 103 | 621 | 674 | 1,174 | 668 | 723 | 1,277 |
| Purchases: | | | | | | | | | | |
| Costs payable to John Swire & Sons (H.K.) Limited under services agreement | | | | | | | | | | |
| – Service fees paid during the period | a | | | | 13 | 4 | 12 | 13 | 4 | 12 |
| – Expenses reimbursed at cost | a | | | | 10 | 7 | 16 | 10 | 7 | 16 |
| Subtotal subject to reporting cap | | | | | 23 | 11 | 28 | 23 | 11 | 28 |
| – Change in accrual for service fees | | | | | (1) | 4 | 9 | (1) | 4 | 9 |
| – Share of administrative services | | | | | 1 | – | 2 | 1 | – | 2 |
| Total | | | | | 23 | 15 | 39 | 23 | 15 | 39 |
| Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited | | | | | 2 | 2 | 4 | 2 | 2 | 4 |
| Spares purchases from Cathay Pacific Airways Limited | | | | | 9 | 6 | 17 | 9 | 6 | 17 |
| Other purchases | c | 4 | 2 | 6 | 3 | 1 | 3 | 7 | 3 | 9 |
| | | 4 | 2 | 6 | 37 | 24 | 63 | 41 | 26 | 69 |
| Debtors | d | 12 | – | 13 | 82 | 176 | 137 | 94 | 176 | 150 |
| Creditors | d | 1 | – | 3 | 10 | 9 | 29 | 11 | 9 | 32 |

Notes: a. These transactions fall under the definition of “continuing connected transactions” in Chapter 14A of the Listing Rules.

b. Other revenue includes:

- Revenue from jointly controlled companies mainly came from services to HAESL and included engine component repairs, provisions of building workshop space in Tseung Kwan O and administrative services charged at cost.
- Revenue from other related parties in 2006 comprised mainly inventory management charges for Cathay Pacific Airways Limited. The decrease in other revenue compared to prior year was due to the maintenance contract with Cathay Pacific Airways Limited up to 31st December 2005 pre-dating the current connected party rules and thus being disclosed as “other revenue” in accordance with Chapter 14A of the Listing Rules.

Revenue from other parties comprised mainly maintenance, inventory management and logistics support charges for Cathay Pacific Airways Limited.

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

d. These outstandings are included in “debtors and prepayments” and “creditors and accruals” respectively in the consolidated balance sheet.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

CORPORATE GOVERNANCE

The Audit Committee of the Company has reviewed the results for the six-month period ended 30th June 2006.

Throughout the accounting period covered by the interim report, the Company has complied with all the code provisions and most of the recommended best practices set out in the Code on Corporate Governance Practices ("the CG Code") contained in Appendix 14 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

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") contained in Appendix 10 of 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.

DISCLOSURE OF INTERESTS

Directors' interests

At 30th June 2006, the registers maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following beneficial interests in the shares of Hong Kong Aircraft Engineering Company Limited and Taikoo (Xiamen) Aircraft Engineering Company Limited, its associated corporation (within the meaning of Part XV of the SFO):

| Hong Kong Aircraft Engineering Company Limited | Capacity | Number of shares | Percentage of issued capital (%) | Note |
|---|----------|------------------|----------------------------------|------|
| The Hon. Sir Michael David Kadoorie (Alternate Director) | Trust | 3,782,886 | 2.27 | 1 |
| James Seymour Dickson Leach | Personal | 124,800 | 0.08 | – |
| John Robert Gibson | Personal | 28,000 | 0.02 | – |
| David Tong Chi Leung | Personal | 20,000 | 0.01 | – |

| Taikoo (Xiamen) Aircraft Engineering Company Limited | Capacity | Number of shares | Percentage of issued capital (%) | Note |
|--|------------------------|---------------------------------------|----------------------------------|------|
| Chan Ping Kit | Controlled corporation | US\$830,000 of the registered capital | 2.00 | 2 |

Notes:

- 1 The Hon. Sir Michael David Kadoorie is one of the discretionary objects and the founder of a discretionary trust which ultimately holds these shares.
- 2 The shares are held by Kin Kuen Development Company Limited in which Chan Ping Kit holds a 30% interest.

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 at 30th June 2006 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

| | Number of shares | Percentage of issued capital (%) | Type of interest (notes) |
|--------------------------------------|------------------|----------------------------------|---|
| 1. Cathay Pacific Airways Limited | 45,649,686 | 27.45 | Beneficial owner |
| 2. Swire Pacific Limited | 99,839,503 | 60.03 | Beneficial owner and attributable interest ⁽¹⁾ |
| 3. John Swire & Sons Limited | 99,839,503 | 60.03 | Attributable interest ⁽²⁾ |
| 4. Marathon Asset Management Limited | 14,985,730 | 9.01 | Investment manager |

Notes: At 30th June 2006:

- (1) Swire Pacific Limited was interested in 54,189,817 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 interest of approximately 46% in Cathay Pacific Airways Limited;
- (2) John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 99,839,503 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's direct or indirect interests in shares of Swire Pacific Limited representing approximately 31% of the issued share capital and approximately 53% of the voting rights.

FINANCIAL CALENDAR AND INFORMATION FOR INVESTORS

FINANCIAL CALENDAR 2006

| | |
|--|-----------------------|
| Interim Report sent to shareholders | 18th August |
| Shares trade ex-dividend | 7th September |
| Share registers closed | 11th – 15th September |
| Interim and special dividends payable | 26th September |

REGISTERED OFFICE

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WEBSITE

<http://www.haeco.com>

STOCK CODE

Hong Kong Stock Exchange: 00044
Symbol for ADR Code: HKAEY
CUSIP Reference Number: 438569105

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

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

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