



Hong Kong Aircraft Engineering  
Company Limited

Stock Code: 00044

Interim Report 2017



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# Financial Highlights

		Six months ended 30th June		
		2017	2016	Change
<b>Results</b>				
Revenue	HK\$ Million	<b>7,405</b>	7,103	<b>+4.3%</b>
Net operating profit	HK\$ Million	<b>415</b>	274	<b>+51.5%</b>
Share of after-tax results of joint venture companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited (before disposal of investments)	HK\$ Million	<b>136</b>	119	<b>+14.3%</b>
– Gain on disposal of Singapore Aero Engine Services Pte. Limited	HK\$ Million	–	805	<b>-100.0%</b>
– Other joint venture companies	HK\$ Million	<b>45</b>	27	<b>+66.7%</b>
Profit attributable to the Company's shareholders	HK\$ Million	<b>348</b>	1,111	<b>-68.7%</b>
Earnings per share attributable to the Company's shareholders (basic and diluted)	HK\$	<b>2.09</b>	6.68	<b>-68.7%</b>
First interim dividend per share	HK\$	<b>0.53</b>	0.63	<b>-15.9%</b>
Special interim dividend per share	HK\$	–	2.35	<b>-100.0%</b>
<b>Financial Position</b>				
Net borrowings	HK\$ Million	<b>2,466</b>	2,368	<b>+4.1%</b>
Gearing ratio	%	<b>31.4</b>	31.5	<b>-0.1%pt</b>
Total equity	HK\$ Million	<b>7,856</b>	7,519	<b>+4.5%</b>
Equity attributable to the Company's shareholders per share	HK\$	<b>38.74</b>	37.12	<b>+4.4%</b>
<b>Cash Flows</b>				
Net cash generated from operating activities	HK\$ Million	<b>371</b>	411	<b>-9.7%</b>
Net cash inflow before financing activities	HK\$ Million	<b>159</b>	728	<b>-78.2%</b>

*Notes:*

The weighted average number of shares in issue is 166,324,850 in 2017 (2016: 166,324,850).

Additional financial information of the Group's joint venture companies is presented on page 29.

The HAECO Group reported an attributable profit of HK\$348 million for the first six months of 2017. This compares with a profit of HK\$1,111 million for the equivalent period in 2016, which included a gain of HK\$805 million on disposal of the interest of Hong Kong Aero Engine Services Limited ("HAESL") in Singapore Aero Engine Services Pte. Limited ("SAESL"). Earnings per share decreased by 68.7% to HK\$2.09. Revenue increased by 4.3% to HK\$7,405 million.

The Directors have declared a first interim dividend of HK\$0.53 per share (2016: HK\$0.63 per share) for the year ending 31st December 2017, a decrease of 15.9% from the first interim dividend paid in 2016 (which was separate from a special dividend of HK\$2.35 per share). The first interim dividend, which totals HK\$88 million (2016: HK\$105 million), will be paid on 19th September 2017 to shareholders registered at the close of business on the record date, being Friday, 1st September 2017. Shares of the Company will be traded ex-dividend as from Wednesday, 30th August 2017.

More airframe and line services work was done by HAECO in Hong Kong ("HAECO Hong Kong") in the first half of 2017 than in the first half of 2016. The increase in airframe services work reflected higher demand and the deferral of some customers' work from 2016. Line services benefited from more aircraft movements. HAECO ITM Limited ("HAECO ITM") recorded a higher profit, which reflected more repair business. The share of HAESL's profit increased. The shareholding increased from 45% to 50%. More engines were overhauled and more work was done per engine.

HAECO USA Holdings, Inc. ("HAECO Americas") recorded a higher loss in the first half of 2017 than in the first half of 2016. This reflected lower demand for its airframe services, lower margins on seats sold and the

completion of fewer interior reconfigurations. The results were also adversely affected by the non-recognition of deferred tax assets in respect of the first half of 2017 tax losses and lower than expected contributions from certain programmes (with efforts to improve efficiency not yet having borne fruit). The non-recognition of deferred tax assets reflects the loss of significant work from a major customer from August 2017.

The profit of Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen") increased in the first half of 2017 compared with the first half of 2016. This principally reflected higher demand for its airframe services. The profit of Taikoo Engine Services (Xiamen) Company Limited ("TEXL") increased, with more engine performance restorations and more component repair work. Taikoo (Xiamen) Landing Gear Services Company Limited ("HAECO Landing Gear Services") incurred a smaller loss than in the first half of 2016. The overall contribution from the Group's other activities in Mainland China improved.

The Group continued to invest in order to increase the scale of its operations 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 2017 was HK\$355 million. Capital expenditure committed at 30th June 2017 was HK\$1,315 million.

The workload for HAECO Hong Kong's airframe maintenance services is expected to be less in the second half than in the first half of 2017 for normal seasonal reasons and because of the deferral of work by some customers. Demand for its line services is expected to be stable. Demand for HAECO Americas' airframe services is expected to decrease in the second half of 2017 compared with the first half due to the loss

(with effect from August) of significant US work from a major customer and also for normal seasonal reasons. Airframe services results will also be adversely affected by the additional costs of training and recruiting staff in preparation for the opening of a fifth hangar at Greensboro in 2018. The growth in demand for seats in the second half of 2017 is expected to continue but margins are expected to be lower. Forward bookings for cabin integration work are weak. More Panasonic communication equipment installation kit work is expected in the second half of 2017 than in the first half. Demand for HAECO Xiamen's airframe services is expected to be less in the second than in the first half of 2017, for normal seasonal reasons. Demand for line services is expected to be stable. Demand for TEXTL's engine overhaul services is expected to be stable in the second half of 2017. HAESL's results in the second half of 2017 are expected to be adversely affected by higher depreciation and training costs associated with developing the capability to overhaul Trent XWB engines.

Overall, the HAECO Group's adjusted profit for 2017 is expected to be below that of 2016.

The municipal government of Xiamen has announced a proposal to relocate the Gaoqi airport to a new airport in the Xiang'an district. This is subject to central government approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

**John Slosar**

*Chairman*

Hong Kong, 15th August 2017

# Review of Operations

The profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		
	2017 HK\$M	2016 HK\$M	Change
HAECO Hong Kong	<b>139</b>	82	<b>+69.5%</b>
HAECO Americas	<b>(208)</b>	(59)	<b>-252.5%</b>
HAECO Xiamen	<b>104</b>	47	<b>+121.3%</b>
TEXL	<b>112</b>	103	<b>+8.7%</b>
Share of:			
HAESL and SAESL	<b>136</b>	924	<b>-85.3%</b>
Other subsidiary and joint venture companies	<b>65</b>	14	<b>+364.3%</b>
Profit attributable to the Company's shareholders	<b>348</b>	1,111	<b>-68.7%</b>

The following table shows the attributable profit adjusted so as to exclude the net gain on disposal of SAESL in 2016.

	Six months ended 30th June		
	2017 HK\$M	2016 HK\$M	Change
Profit attributable to the Company's shareholders	<b>348</b>	1,111	<b>-68.7%</b>
Adjusting item			
Gain on disposal of SAESL, net of associated expenses	-	(783)	<b>+100.0%</b>
Adjusted profit	<b>348</b>	328	<b>+6.1%</b>
The adjusted profit by company is analysed below:			
HAECO Hong Kong	<b>139</b>	104	<b>+33.7%</b>
HAECO Americas	<b>(208)</b>	(59)	<b>-252.5%</b>
HAECO Xiamen	<b>104</b>	47	<b>+121.3%</b>
TEXL	<b>112</b>	103	<b>+8.7%</b>
Share of:			
HAESL and SAESL	<b>136</b>	119	<b>+14.3%</b>
Other subsidiary and joint venture companies	<b>65</b>	14	<b>+364.3%</b>
	<b>348</b>	328	<b>+6.1%</b>

The key operating highlights are as follows:

	Six months ended 30th June		Change
	2017	2016	
<b>Airframe services sold manhours (in millions)</b>			
HAECO Hong Kong	<b>1.50</b>	1.38	<b>+8.7%</b>
HAECO Americas	<b>1.59</b>	1.74	<b>-8.6%</b>
HAECO Xiamen	<b>2.01</b>	1.65	<b>+21.8%</b>
	<b>5.10</b>	4.77	<b>+6.9%</b>
<b>Line services aircraft movements (per day)</b>			
HAECO Hong Kong	<b>317</b>	306	<b>+3.6%</b>
HAECO Xiamen	<b>52</b>	48	<b>+8.3%</b>
HAECO Shanghai	<b>47</b>	46	<b>+2.2%</b>
<b>Engine output</b>			
TEXL – performance restorations	<b>26</b>	23	<b>+13.0%</b>
TEXL – quick turn repairs	<b>14</b>	25	<b>-44.0%</b>
HAESL	<b>71</b>	60	<b>+18.3%</b>

## HAECO HONG KONG

HAECO Hong Kong's business comprises airframe services, line services at the passenger and cargo terminals at Hong Kong International Airport, component services, material management and fleet technical management. It recorded a 33.7% increase in adjusted profit in the first half of 2017 compared to the first half of 2016.

1.50 million airframe services manhours were sold by HAECO Hong Kong in the first half of 2017, 8.7% more than in the first half of 2016. The increase reflected higher demand and the deferral of some customers' work from 2016. 79.4% of the work was for airlines based outside Hong Kong.

HAECO Hong Kong handled approximately 57,300 aircraft movements (representing an average of 317 per day) in the first half of 2017, an increase of 3.6% compared with the first half of 2016. Line services manhours increased accordingly.

Component maintenance manhours sold, together with those sold by HAECO Component Overhaul (Xiamen) Limited ("HAECO Component Overhaul (Xiamen)"), were 0.10 million in the first half of 2017, 0.01 million lower than those in the first half of 2016. The decrease reflected reduced scope of work.

The workload for HAECO Hong Kong's airframe services is expected to be less in the second half than in the first half of 2017 for normal seasonal reasons and because of the deferral of work by some customers. Demand for line services is expected to be stable. Line services capacity is increasing, with more staff being hired. More component repair work is expected in the second half of the year.

## HAECO AMERICAS (OWNED 100% BY HAECO)

HAECO Americas' business comprises airframe services, engine repair services, the manufacture of seats and cabin interior products and other aircraft cabin work. It recorded a loss of HK\$208 million in the first half of 2017, HK\$149 million more than its loss of HK\$59 million in the first half of 2016. This reflected lower demand for its airframe services, lower margins on seats sold and the completion of fewer interior reconfigurations. The results were also adversely affected by the non-recognition of deferred tax assets in respect of the first half of 2017 tax losses and lower than expected contributions from certain programmes (with efforts to improve efficiency not yet having borne fruit). The non-recognition of deferred tax assets reflects the loss of significant work from a major customer from August 2017.

1.59 million airframe services manhours were sold, 8.6% fewer than the first half of 2016. This followed the completion of some significant aircraft and cabin modification programmes in 2016.

## Review of Operations

More seats were sold (approximately 3,700 compared with 1,800 in the first half of 2016), but lower margins and losses on some seat contracts affected results. Demand for old seats grew quite well. Our new seats are being introduced to the market. There was less demand for cabin integration work. Less Panasonic communication equipment installation kit work was done.

Demand for HAECO Americas' airframe services is expected to decrease in the second half of 2017 compared with the first half due to the loss (with effect from August) of significant US work from a major customer and also for normal seasonal reasons. Airframe services results will also be adversely affected by the additional costs of training and recruiting staff in preparation for the opening of a fifth hangar at Greensboro in 2018. The growth in demand for seats in the second half of 2017 is expected to continue but margins are expected to be lower. Forward bookings for cabin integration work are weak. More Panasonic communication equipment installation kit work is expected in the second half of 2017 than in the first half.

### **HAECO XIAMEN (OWNED 58.55% BY HAECO)**

HAECO Xiamen's business comprises airframe services, line services, private jet work, parts manufacturing and technical training. It recorded a 121.3% increase in attributable profit to HK\$104 million in the first half of 2017 compared with the first half of 2016. This reflected higher demand for airframe services and stringent cost control.

Demand for HAECO Xiamen's airframe services in the first half of 2017 was strong. 2.01 million manhours were sold, representing a 21.8% growth in volume and a 26.6% increase in revenue compared to the same period in 2016.

The company handled an average of 52 aircraft movements per day in the first half of 2017, 8.3% more than in the first half of 2016. Revenue increased by 13.3%.

Revenue from private jets, parts manufacturing and technical training increased by 65.0%, 43.2%, and 7.3% respectively in the first half of 2017 compared to the first half of 2016.

Demand for HAECO Xiamen's airframe services is expected to be less in the second half than in the first half of 2017, for normal seasonal reasons. Demand for line services is expected to be stable. Demand for parts manufacturing is expected to be strong. Work will start on the modification of the cabin of a Boeing 747-400 VIP aircraft in the second half of 2017.

The Xiamen municipal government has announced a proposal to relocate the Gaoqi airport to a new airport in the Xiang'an district. This is subject to central government approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

### **TEXL (OWNED 67.58% BY HAECO AND 9.01% BY HAECO XIAMEN)**

TEXL has an engine overhaul facility in Xiamen. It has a service agreement with General Electric, under which it provides maintenance, repair and overhaul services on GE90-110B and GE90-115B engines. In the first half of 2017, TEXL did 26 engine performance restorations and 14 engine quick turn repairs (compared with 23 and 25 respectively in the first half of 2016). With more engine performance restoration work, attributable profit increased by 8.7% to HK\$112 million in the first half of 2017 compared with the first half of 2016. Engines from three new airlines were inducted in the first half of 2017.

Demand for TEXL's overhaul services is expected to be stable in the second half of 2017.

### HAESL (45% OWNED BY HAECO UNTIL 30TH JUNE 2016 AND 50% THEREAFTER)

HAESL repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. It recorded a 14.3% increase in profit (on a 100% basis) in the first half of 2017 compared to the first half of 2016 (excluding from the 2016 figure the profit on disposal of its interest in SAESL). More engines (71 compared with 60 in the first half of 2016) were overhauled and more work was done per engine.

HAESL's results in the second half of the year are expected to be adversely affected by higher depreciation and training costs associated with developing the capability to overhaul Trent XWB engines, which power Airbus A350 aircraft. This work is expected to start later in 2017.

### OTHER PRINCIPAL SUBSIDIARY AND JOINT VENTURE COMPANIES

HAECO ITM (owned 70% by HAECO) provides inventory technical management services to Cathay Pacific and other airlines. It provided services for 268 aircraft in the first half of 2017, similar to the number in the corresponding period in 2016. Profits increased. There was more repair business.

HAECO Landing Gear Services (owned 63.80% by HAECO and 10% by HAECO Xiamen) overhauls landing gear in Xiamen. It did more work than in the first half of 2016. Its losses were reduced accordingly.

HAECO Component Overhaul (Xiamen) (100% owned) made a loss in the first half of 2017 similar to that in the first half of 2016. It did more work. Operating costs increased accordingly.

Shanghai Taikoo Aircraft Engineering Services Company Limited ("HAECO Shanghai") (owned 60% by HAECO and 15% by HAECO Xiamen) provides line services in Shanghai and Nanjing. The average number of aircraft

movements handled per day was 47 in the first half of 2017, 2.2% higher than in the first half of 2016. Its profit decreased due to higher staff costs, which reflected an increase in manpower in the second half of 2016.

Singapore HAECO Pte. Limited ("HAECO Line Services (Singapore)") (100% owned) provides line services in Singapore. It broke even in the first half of 2017, having made a small profit in the first half of 2016. It did less work.

Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("HAECO Spirit AeroSystems") (owned 41.8% by HAECO and 10.76% by HAECO Xiamen) repairs and overhauls composite structures at Jinjiang in Fujian Province in Mainland China. It made a smaller profit in the first half of 2017 than in the first half of 2016. It did less work and material costs increased.

### STAFF

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

	30th June 2017	31st December 2016	Change
HAECO Hong Kong	5,997	6,155	-2.6%
HAECO Americas	2,664	2,708	-1.6%
HAECO Xiamen	4,383	4,479	-2.1%
HAESL	880	861	+2.2%
Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own more than 20%	2,755	2,748	+0.3%
	<b>16,679</b>	16,951	<b>-1.6%</b>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Six months ended 30th June		Change HK\$M	Reference
	2017 HK\$M	2016 HK\$M		
<b>Revenue</b>				
– <b>HAECO Hong Kong</b> The increase reflects more airframe and line services work.	<b>2,041</b>	1,902	139	
– <b>HAECO Americas</b> The decrease mainly reflects less airframe services work.	<b>1,435</b>	1,586	(151)	
– <b>HAECO Xiamen</b> The increase reflects more airframe work.	<b>1,055</b>	835	220	
– <b>TEXL</b> The increase arising from more engine performance restorations and component repair work was largely offset by fewer quick turn repairs.	<b>2,556</b>	2,515	41	
– <b>Others</b> The increase reflects more work at HAECO Landing Gear Services.	<b>318</b>	265	53	
– <b>Total</b>	<b>7,405</b>	7,103	302	Note 4
<b>Staff remuneration and benefits</b> The increase mainly reflects salary increases.	<b>(2,608)</b>	(2,517)	(91)	
<b>Cost of direct material and job expenses</b> The increase reflects more airframe services work at HAECO Xiamen.	<b>(3,575)</b>	(3,472)	(103)	
<b>Depreciation, amortisation and impairment</b> The increase is partly due to depreciation of newly acquired rotatable aircraft parts at HAECO ITM.	<b>(313)</b>	(307)	(6)	Note 9
<b>Other operating expenses</b> The decrease mainly reflects the absence of expenses incurred in the first half of 2017 in connection with the disposal of SAESL and on consultancy fees at HAECO Americas.	<b>(463)</b>	(492)	29	
<b>Other net gains</b> The increase principally reflects higher government subsidies received in Mainland China.	<b>20</b>	8	12	

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS** (continued)

	Six months ended 30th June		Change HK\$M	Reference
	2017 HK\$M	2016 HK\$M		
<b>Operating profit</b>	<b>466</b>	323	143	
The growth in operating profit reflects increased profits at HAECO Hong Kong, HAECO Xiamen and HAECO Landing Gear Services, partially offset by an increased loss at HAECO Americas.				
<b>Net finance charges</b>	<b>(51)</b>	(49)	(2)	Note 5
The increase mainly reflects a higher fair value loss on a put option over a non-controlling interest in a subsidiary company.				
<b>Share of after-tax results of joint venture companies</b>	<b>181</b>	951	(770)	Note 11
The reduction predominantly reflects the absence of the gain on disposal of SAESL recorded in the first half of 2016.				
<b>Taxation</b>	<b>(121)</b>	(46)	(75)	
The increase reflects non-recognition of deferred tax assets at HAECO Americas and the increase in profits at HAECO Hong Kong and HAECO Xiamen.				
<b>Non-controlling interests</b>	<b>(127)</b>	(68)	(59)	
The increase reflects higher profit at HAECO Xiamen.				
<b>Profit attributable to the Company's shareholders</b>	<b>348</b>	1,111	(763)	

**ASSETS**

Total assets at 30th June 2017 were HK\$14,931 million. During the period, additions to fixed assets were HK\$350 million. Included in this amount was HK\$176 million spent on assets under construction, HK\$73 million spent on plant, machinery and tools and HK\$84 million spent on rotatable and repairable spare parts for inventory technical management.

## NET BORROWINGS AND GEARING

At 30th June 2017, the Group's net borrowings were HK\$2,466 million representing an increase of HK\$98 million from those at 31st December 2016. The increase principally reflects capital expenditure in the first half of the year. The gearing ratio was 31.4%, compared with 31.5% at the end of 2016. The Group's net borrowings by company are analysed below:

	Group	
	30th June 2017 HK\$M	31st December 2016 HK\$M
HAECO Hong Kong	(1,127)	(1,050)
HAECO Americas	(2,271)	(2,122)
HAECO Xiamen	621	596
TEXL	236	177
Other subsidiary companies	75	31
	<b>(2,466)</b>	<b>(2,368)</b>

## SOURCES OF FINANCING

At 30th June 2017, net borrowings consisted of short-term loans of HK\$231 million, long-term loans of HK\$3,572 million and finance lease obligations of HK\$8 million, net of bank balances and short-term deposits of HK\$1,345 million. Committed facilities were HK\$4,935 million at 30th June 2017, of which HK\$1,313 million were undrawn. There were uncommitted facilities of HK\$2,424 million, of which HK\$2,193 million were undrawn. Sources of funds at 30th June 2017 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 and finance leases	4,935	3,622	–	1,313
<b>Uncommitted facilities</b>				
– Loans and overdrafts	2,424	231	2,193	–
<b>Total</b>	<b>7,359</b>	<b>3,853</b>	<b>2,193</b>	<b>1,313</b>

## MATURITY PROFILE

Loans are denominated in US dollars and HK dollars and are repayable on various dates up to 2020. Finance leases are repayable on various dates up to 2030.

The maturity of long-term loans at 30th June 2017 was as follows:

	Group	
	30th June 2017 HK\$M	31st December 2016 HK\$M
Bank loans:		
Repayable within one year	189	136
Repayable between one and two years	282	548
Repayable between two and five years	3,101	2,930
	<b>3,572</b>	<b>3,614</b>

## FINANCE CHARGES

An analysis of outstanding loans by reference to whether they bear interest at floating or fixed rates is shown below:

	30th June 2017		31st December 2016	
	HK\$M		HK\$M	
Fixed	<b>1,185</b>	<b>31%</b>	865	23%
Floating	<b>2,668</b>	<b>69%</b>	2,873	77%
Sub-total	<b>3,853</b>	<b>100%</b>	3,738	100%
Less: Unamortised loan fee	<b>42</b>		49	
Total	<b>3,811</b>		3,689	

The Group's weighted average cost of debt at 30th June 2017 was 2.42% (30th June 2016: 2.33%; 31st December 2016: 2.36%).

## CURRENCY PROFILE

An analysis of the carrying amounts of gross borrowings by currency is shown below:

Currency	30th June 2017		31st December 2016	
	HK\$M		HK\$M	
Hong Kong dollars	<b>1,754</b>	<b>45.5%</b>	1,611	43.1%
United States dollars	<b>2,099</b>	<b>54.5%</b>	2,127	56.9%
Total	<b>3,853</b>	<b>100.0%</b>	3,738	100.0%

## CURRENCY HEDGING

HAECO Xiamen tries to mitigate its exposure to increases in the value of the Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 30th June 2017, HAECO Xiamen had sold forward a total of US\$19.9 million to fund part of its Renminbi requirements from 2017 to 2019. The weighted average exchange rate applicable to these forward sales was RMB6.92 to US\$1. A loss of HK\$5 million was incurred on forward foreign exchange contracts in the first half of 2017.

# Report on Review of Condensed Interim Financial Statements

## TO THE BOARD OF DIRECTORS OF HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

*(incorporated in Hong Kong with limited liability)*

### INTRODUCTION

We have reviewed the condensed interim financial statements set out on pages 13 to 33, which comprise the consolidated statement of financial position of Hong Kong Aircraft Engineering Company Limited (the "Company") and its subsidiaries (together the "Group") as at 30 June 2017 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed interim financial statement based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 15th August 2017

# Consolidated Statement of Profit or Loss

for the six months ended 30th June 2017

		(Unaudited) Six months ended 30th June	(Audited) Year ended 31st December
	2017 HK\$M	2016 HK\$M	2016 HK\$M
<b>Revenue</b>	4	<b>7,405</b>	13,760
<b>Operating expenses:</b>			
Staff remuneration and benefits		<b>(2,608)</b>	(5,059)
Cost of direct material and job expenses		<b>(3,575)</b>	(6,679)
Depreciation, amortisation and impairment		<b>(313)</b>	(966)
Insurance and utilities		<b>(87)</b>	(188)
Operating lease rentals – land and buildings		<b>(144)</b>	(279)
Repairs and maintenance		<b>(95)</b>	(189)
Other		<b>(137)</b>	(303)
		<b>(6,959)</b>	(13,663)
<b>Other net gains</b>		<b>20</b>	30
<b>Operating profit</b>	4	<b>466</b>	127
<b>Finance income</b>	5	<b>5</b>	9
<b>Finance charges</b>	5	<b>(56)</b>	(98)
<b>Net operating profit</b>		<b>415</b>	38
<b>Share of after-tax results of:</b>			
Joint venture companies before gain on disposal of investments		<b>181</b>	267
Joint venture company's gain on disposal of investments		<b>–</b>	805
	11	<b>181</b>	1,072
<b>Profit before taxation</b>		<b>596</b>	1,110
<b>Taxation</b>	6	<b>(121)</b>	(17)
<b>Profit for the period</b>		<b>475</b>	1,093
<b>Profit attributable to:</b>			
The Company's shareholders		<b>348</b>	975
Non-controlling interests		<b>127</b>	118
		<b>475</b>	1,093
<b>Dividends</b>			
First interim – declared/paid		<b>88</b>	105
Second interim – paid		<b>–</b>	153
Special interim – paid		<b>–</b>	391
		<b>88</b>	649
<b>Earnings per share from profit attributable to the Company's shareholders (basic and diluted)</b>	8	<b>HK\$2.09</b>	HK\$5.86

The notes on pages 18 to 33 form part of these financial statements.

# Consolidated Statement of Other Comprehensive Income

for the six months ended 30th June 2017

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2017 HK\$M	2016 HK\$M	2016 HK\$M
<b>Profit for the period</b>	<b>475</b>	1,179	1,093
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Defined benefit retirement schemes			
– remeasurement gains recognised during the period	–	–	104
– deferred tax	–	–	(17)
Share of other comprehensive income of joint venture companies	–	–	11
<b>Items that may be reclassified subsequently to profit or loss</b>			
Cash flow hedges			
– gains/(losses) recognised during the period	<b>1</b>	(5)	(6)
– transferred to revenue	<b>4</b>	3	5
– transferred to finance charges	<b>1</b>	1	2
– deferred tax	<b>(1)</b>	–	–
Share of other comprehensive income of joint venture companies	–	6	6
Net translation differences on foreign operations	<b>109</b>	(58)	(181)
<b>Other comprehensive income for the period, net of tax</b>	<b>114</b>	(53)	(76)
<b>Total comprehensive income for the period</b>	<b>589</b>	1,126	1,017
<b>Total comprehensive income attributable to:</b>			
The Company's shareholders	<b>423</b>	1,082	972
Non-controlling interests	<b>166</b>	44	45
	<b>589</b>	1,126	1,017

The notes on pages 18 to 33 form part of these financial statements.

# Consolidated Statement of Financial Position

at 30th June 2017

	Note	(Unaudited) 30th June 2017 HK\$M	(Audited) 31st December 2016 HK\$M
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	5,372	5,264
Land and land use rights	9	324	322
Intangible assets	10	2,134	2,166
Joint venture companies	11	1,692	1,607
Derivative financial instruments	13	3	3
Deferred tax assets	16	315	311
Retirement benefit assets	12	39	39
Long-term prepayment		17	17
		<b>9,896</b>	<b>9,729</b>
<b>Current assets</b>			
Stocks		793	820
Work in progress		1,057	883
Trade and other receivables	14	1,837	1,595
Taxation recoverable		–	1
Derivative financial instruments	13	3	1
Cash and cash equivalents		1,327	1,299
Short-term deposits		18	22
		<b>5,035</b>	<b>4,621</b>
<b>Current liabilities</b>			
Trade and other payables	15	2,254	2,194
Taxation payable		86	54
Put option over a non-controlling interest in a subsidiary company		83	77
Derivative financial instruments	13	2	6
Short-term loans		231	64
Long-term loans due within one year		189	136
Finance lease obligations due within one year		3	3
		<b>2,848</b>	<b>2,534</b>
<b>Net current assets</b>		<b>2,187</b>	<b>2,087</b>
<b>Total assets less current liabilities</b>		<b>12,083</b>	<b>11,816</b>
<b>Non-current liabilities</b>			
Long-term loans		3,383	3,478
Finance lease obligations		5	8
Receipt in advance		–	5
Deferred income		19	17
Advance from a related party		292	289
Deferred tax liabilities	16	287	282
Derivative financial instruments	13	2	–
Retirement benefit liabilities	12	239	218
		<b>4,227</b>	<b>4,297</b>
<b>NET ASSETS</b>		<b>7,856</b>	<b>7,519</b>
<b>EQUITY</b>			
Share capital	17	185	185
Reserves	18	6,259	5,989
<b>Equity attributable to the Company's shareholders</b>		<b>6,444</b>	<b>6,174</b>
<b>Non-controlling interests</b>		<b>1,412</b>	<b>1,345</b>
<b>TOTAL EQUITY</b>		<b>7,856</b>	<b>7,519</b>

The notes on pages 18 to 33 form part of these financial statements.

# Consolidated Statement of Cash Flows

for the six months ended 30th June 2017

	(Unaudited) Six months ended 30th June	(Audited) Year ended 31st December
	2017 HK\$M	2016 HK\$M
<b>Operating activities</b>		
Cash generated from operations	495	1,199
Interest paid	(43)	(83)
Interest received	6	10
Tax paid	(87)	(103)
<b>Net cash generated from operating activities</b>	<b>371</b>	<b>1,023</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(353)	(717)
Purchase of intangible assets	(2)	(10)
Proceeds from disposals of property, plant and equipment	20	57
Dividends received from joint venture companies	118	1,169
Purchase of shares in a joint venture company	–	(452)
Decrease/(increase) in deposits maturing after more than three months	5	(8)
<b>Net cash (used in)/generated from investing activities</b>	<b>(212)</b>	<b>39</b>
<b>Net cash inflow before financing activities</b>	<b>159</b>	<b>1,062</b>
<b>Financing activities</b>		
Proceeds from loans	1,626	1,576
Repayment of loans and finance leases	(1,525)	(2,025)
Repayment to a related party	–	(6)
Dividends paid to the Company's shareholders	(153)	(679)
Dividends paid to non-controlling interests	(99)	(5)
<b>Net cash used in financing activities</b>	<b>(151)</b>	<b>(1,139)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>8</b>	<b>(77)</b>
Cash and cash equivalents at 1st January	1,299	1,413
Currency adjustment	20	(37)
<b>Cash and cash equivalents at end of the period</b>	<b>1,327</b>	<b>1,299</b>

The notes on pages 18 to 33 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the six months ended 30th June 2017

	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		
<b>At 1st January 2017</b>	<b>185</b>	<b>6,013</b>	<b>(24)</b>	<b>1,345</b>	<b>7,519</b>
Profit for the period	–	348	–	127	475
Other comprehensive income	–	–	75	39	114
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>348</b>	<b>75</b>	<b>166</b>	<b>589</b>
Dividends paid	–	(153)	–	(99)	(252)
<b>At 30th June 2017 (unaudited)</b>	<b>185</b>	<b>6,208</b>	<b>51</b>	<b>1,412</b>	<b>7,856</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		
At 1st January 2016	185	5,619	77	1,305	7,186
Profit for the period	–	1,111	–	68	1,179
Other comprehensive income	–	–	(29)	(24)	(53)
Total comprehensive income for the period	–	1,111	(29)	44	1,126
Dividends paid	–	(183)	–	(6)	(189)
At 30th June 2016 (unaudited)	185	6,547	48	1,343	8,123

The notes on pages 18 to 33 form part of these financial statements.

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

- (a) The unaudited condensed interim financial statements have 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 financial information relating to the year ended 31st December 2016 that is included in this document as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2016 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2016 annual financial statements except for those noted in 1(b) below.

- (b) The following amendments were required to be adopted by the Group effective from 1st January 2017:

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these amendments has had no significant impact on the Group's financial statements.

- (c) The Group has not early adopted the following relevant new and revised standards that have been issued but are effective for annual periods beginning on or after 1st January 2018.

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	1st January 2018
HKFRS 15	Revenue from Contracts with Customers	1st January 2018
HKFRS 16	Leases	1st January 2019

HKFRS 15 deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard replaces HKAS 18 and HKAS 11 and related interpretations and provides a comprehensive revenue recognition model that can be applied to a wide range of transactions and industries. The model uses a five-step analysis of transactions to determine whether, how much and when revenue is recognised. The adoption of HKFRS 15 will have an effect on the timing of the Group's revenue recognition, particularly in relation to engine maintenance service contracts which are expected to be recognised over time under HKFRS 15.

The Group has yet to finalise the assessment of the full impact of HKFRS 9 and HKFRS 16.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the interim financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Those areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the Group's consolidated financial statements are detailed in the 2016 annual financial statements.

## 3. FINANCIAL RISK MANAGEMENT

- (a) In the normal course of business, the Group is exposed to financial risks attributable to interest rates, currencies, credit and liquidity.

The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2016 annual financial statements. There have been no changes in the Group's financial risk management structure, policies and procedures since the year end.

- (b) The tables below analyse financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Unobservable inputs for the asset or liability (level 3).

Financial instruments that are measured at fair value are included in the following fair value hierarchy:

	Level 2 HK\$M	Level 3 HK\$M	Total carrying amount HK\$M
<b>Assets as per consolidated statement of financial position</b>			
At 30th June 2017			
Derivatives used for hedging	5	–	5
Derivatives not qualifying as hedges	1	–	1
Total	<b>6</b>	<b>–</b>	<b>6</b>
At 31st December 2016			
Derivatives used for hedging	3	–	3
Derivatives not qualifying as hedges	1	–	1
Total	4	–	4

**3. FINANCIAL RISK MANAGEMENT** (continued)

(b) (continued)

	Level 2 HK\$M	Level 3 HK\$M	Total carrying amount HK\$M
<b>Liabilities as per consolidated statement of financial position</b>			
At 30th June 2017			
Derivatives used for hedging	<b>3</b>	–	<b>3</b>
Derivatives not qualifying as hedges	<b>1</b>	–	<b>1</b>
Put option over a non-controlling interest in a subsidiary company	–	<b>83</b>	<b>83</b>
Total	<b>4</b>	<b>83</b>	<b>87</b>
At 31st December 2016			
Derivatives used for hedging	6	–	6
Put option over a non-controlling interest in a subsidiary company	–	77	77
Total	6	77	83

The following table presents the change in level 3 instrument:

At 1st January 2017	<b>77</b>
Change in fair value recognised in profit or loss during the period	<b>6</b>
At 30th June 2017	<b>83</b>
Total loss for the period included in profit or loss in respect of financial instrument held at 30th June 2017	<b>6</b>
Change in unrealised loss for the period included in profit or loss in respect of financial instrument held at 30th June 2017	<b>6</b>

**3. FINANCIAL RISK MANAGEMENT** (continued)

## (b) (continued)

There has been no change in valuation techniques for level 2 and level 3 fair value hierarchy classifications.

The fair value of derivatives in Level 2 is determined based on quotes from market makers or alternative market participants supported by observable inputs. The most significant inputs are market interest rates and exchange rates.

The fair value of the put option over a non-controlling interest in a subsidiary company in Level 3 is determined using discounted cash flow valuation technique. The significant unobservable inputs used in the fair value measurement are the terminal growth rate into perpetuity and discount rate.

Information about fair value measurements using significant unobservable inputs (Level 3) in the period under review is as follows:

Description	Unobservable inputs	Unobservable inputs (%)	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation HK\$M
Put option over a non-controlling interest in a subsidiary company	Terminal growth rate into perpetuity	1.5%	The higher the terminal growth rate, the higher the fair value	+/-1%	43/(31)
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	(52)/74

The Group's finance department includes a team that performs the valuations of financial instruments required for financial reporting purposes, including Level 3 fair values. This team reports to Group Director Finance. Discussions of valuation processes and results are held between Group Director Finance and the valuation team at least once every six months, in line with the Group's external reporting dates.

#### 4. SEGMENT INFORMATION

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

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

Six months ended 30th June 2017	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
External revenue	2,041	1,435	1,055	2,556	4,652	(4,652)	318	–	7,405
Inter-segment revenue	66	–	11	1	11	(11)	8	(86)	–
Total revenue	2,107	1,435	1,066	2,557	4,663	(4,663)	326	(86)	7,405
Operating profit/(loss)	176	(182)	213	191	326	(326)	68	–	466
Finance income	9	–	11	1	1	(1)	–	(16)	5
Finance charges	(15)	(26)	–	(2)	(1)	1	(23)	10	(56)
Share of after-tax results of joint venture companies	–	–	–	–	–	136	–	45	181
Profit/(loss) before taxation	170	(208)	224	190	326	(190)	45	39	596
Taxation charge	(31)	–	(38)	(28)	(54)	54	(11)	(13)	(121)
Profit/(loss) for the period	139	(208)	186	162	272	(136)	34	26	475
Depreciation	87	34	59	20	48	(48)	61	–	261
Amortisation	1	28	7	16	3	(3)	–	–	52
Provision for impairment of stock	3	10	–	1	2	(2)	–	–	14

## 4. SEGMENT INFORMATION (continued)

Six months ended 30th June 2016	HAESL									
	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	At 100%			Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					Excluding disposal of interests in SAESL HK\$M	Disposal of interests in SAESL HK\$M	Adjustments to reflect the Group's equity share HK\$M			
External revenue	1,902	1,586	835	2,515	4,098	–	(4,098)	265	–	7,103
Inter-segment revenue	72	1	10	–	9	–	(9)	15	(98)	–
Total revenue	1,974	1,587	845	2,515	4,107	–	(4,107)	280	(98)	7,103
Operating profit/(loss)	109	(64)	89	177	288	1,789	(2,077)	12	–	323
Finance income	8	–	10	1	–	–	–	–	(15)	4
Finance charges	(18)	(25)	–	(4)	(3)	–	3	(20)	14	(53)
Share of after-tax results of joint venture companies	–	–	–	–	27	–	897	–	27	951
Profit/(loss) before taxation	99	(89)	99	174	312	1,789	(1,177)	(8)	26	1,225
Taxation (charge)/credit	(17)	30	(14)	(26)	(47)	–	47	(10)	(9)	(46)
Profit/(loss) for the period	82	(59)	85	148	265	1,789	(1,130)	(18)	17	1,179
Depreciation	83	30	64	19	47	–	(47)	59	–	255
Amortisation	1	29	7	15	2	–	(2)	–	–	52
Provision for impairment of stock	1	4	–	1	–	–	–	–	–	6

## 4. SEGMENT INFORMATION (continued)

Year ended 31st December 2016	HAESL									
	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	At 100%		Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					Excluding disposal of interests in SAESL HK\$M	Disposal of interests in SAESL HK\$M				
External revenue	3,879	2,836	1,640	4,808	8,423	–	(8,423)	597	–	13,760
Inter-segment revenue	108	1	24	1	23	–	(23)	26	(160)	–
Total revenue	3,987	2,837	1,664	4,809	8,446	–	(8,446)	623	(160)	13,760
Operating profit/(loss)	223	(608)	178	336	522	1,789	(2,311)	(2)	–	127
Finance income	16	–	21	1	3	–	(3)	1	(30)	9
Finance charges	(31)	(48)	–	(6)	(6)	–	6	(41)	28	(98)
Share of after-tax results of joint venture companies	–	–	–	–	27	–	996	–	49	1,072
Profit/(loss) before taxation	208	(656)	199	331	546	1,789	(1,312)	(42)	47	1,110
Taxation (charge)/credit	(36)	133	(30)	(49)	(83)	–	83	(18)	(17)	(17)
Profit/(loss) for the year	172	(523)	169	282	463	1,789	(1,229)	(60)	30	1,093
Depreciation	172	62	124	38	96	–	(96)	124	–	520
Amortisation	1	57	14	31	5	–	(5)	1	–	104
Provision for impairment of stock and property, plant and equipment	4	14	15	2	7	–	(7)	57	–	92
Provision for impairment of goodwill	–	285	–	–	–	–	–	–	–	285

## 4. SEGMENT INFORMATION (continued)

At 30th June 2017	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
<b>Total segment assets</b>	<b>3,781</b>	<b>3,548</b>	<b>2,931</b>	<b>2,343</b>	<b>3,201</b>	<b>(3,201)</b>	<b>1,938</b>	<b>(1,302)</b>	<b>13,239</b>
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	<b>80</b>	<b>107</b>	<b>53</b>	<b>17</b>	<b>137</b>	<b>(137)</b>	<b>93</b>	<b>–</b>	<b>350</b>
<b>Total segment liabilities</b>	<b>2,228</b>	<b>2,846</b>	<b>420</b>	<b>950</b>	<b>1,357</b>	<b>(1,357)</b>	<b>1,893</b>	<b>(1,262)</b>	<b>7,075</b>

At 31st December 2016	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
<b>Total segment assets</b>	<b>3,816</b>	<b>3,337</b>	<b>2,797</b>	<b>2,141</b>	<b>2,932</b>	<b>(2,932)</b>	<b>1,914</b>	<b>(1,262)</b>	<b>12,743</b>
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	<b>158</b>	<b>169</b>	<b>57</b>	<b>40</b>	<b>188</b>	<b>(188)</b>	<b>286</b>	<b>–</b>	<b>710</b>
<b>Total segment liabilities</b>	<b>2,250</b>	<b>2,730</b>	<b>414</b>	<b>783</b>	<b>1,143</b>	<b>(1,143)</b>	<b>1,891</b>	<b>(1,237)</b>	<b>6,831</b>

	30th June 2017 HK\$M	31st December 2016 HK\$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	<b>13,239</b>	12,743
Unallocated: investment in joint venture companies	<b>1,692</b>	1,607
<b>Total assets</b>	<b>14,931</b>	14,350

The Group's principal joint venture companies, except for SAESL which was disposed of on 30th June 2016, are held by HAECO and HAECO Xiamen.

Reportable segments' liabilities are equal to total liabilities.

HAESL has been determined as a reportable segment, although it is a joint venture company. The Executive Directors of the Board review the full statement of profit or loss and net assets of this entity as part of its performance review and resource allocation decisions. Full information on revenue, profit, assets and liabilities has been included in the above, although these amounts do not appear in the Group's consolidated statement of profit or loss and consolidated 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 consolidated statement of profit or loss and consolidated statement of financial position.

## 5. FINANCE INCOME AND FINANCE CHARGES

	Six months ended 30th June		Year ended 31st December	
	2017 HK\$M	2016 HK\$M	2016 HK\$M	2016 HK\$M
Finance income:				
Short-term deposits and bank balances	5	4		9
Finance charges:				
Bank loans	(46)	(48)		(89)
Advance from a related party	(4)	(3)		(6)
Finance lease obligations	–	–		(1)
Fair value losses on derivative instruments:				
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(1)	(1)		(2)
Fair value loss on a put option over a non-controlling interest in a subsidiary company	(6)	(1)		(2)
Capitalised on property, plant and equipment	1	–		2
Total finance charges	(56)	(53)		(98)
Net finance charges	(51)	(49)		(89)

## 6. TAXATION

	Six months ended 30th June		Year ended 31st December	
	2017 HK\$M	2016 HK\$M	2016 HK\$M	2016 HK\$M
Current taxation:				
Hong Kong profits tax	42	21		37
Overseas taxation	77	49		91
Under/(over)-provisions in prior years	1	(3)		(7)
	120	67		121
Deferred taxation:				
Increase in deferred tax assets	(1)	(15)		(119)
Increase/(decrease) in deferred tax liabilities	2	(6)		15
	121	46		17

Hong Kong profits tax is calculated at 16.5% (2016: 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 joint venture companies' tax charges for the six months ended 30th June 2017 of HK\$31 million (30th June 2016: HK\$31 million; year ended 31st December 2016: HK\$56 million) is included in the share of after-tax results of joint venture companies shown in the consolidated statement of profit or loss.

## 7. DIVIDENDS

	Six months ended 30th June		Year ended 31st December
	2017 HK\$M	2016 HK\$M	2016 HK\$M
First interim dividend declared on 15th August 2017 of HK\$0.53 per share (2016 first interim dividend paid: HK\$0.63 per share)	88	105	105
Second interim dividend paid on 25th April 2017 of HK\$0.92 per share	–	–	153
Special interim dividend paid on 20th September 2016 of HK\$2.35 per share	–	391	391
	<b>88</b>	496	649

The Directors have declared a first interim dividend of HK\$0.53 per share (2016: first interim dividend of HK\$0.63 per share and special interim dividend of HK\$2.35 per share) for the year ending 31st December 2017. The first interim dividend, which totals HK\$88 million (2016: first interim dividend totalling HK\$105 million and special interim dividend totalling HK\$391 million), will be paid on 19th September 2017 to shareholders registered at the close of business on the record date, being Friday, 1st September 2017. Shares of the Company will be traded ex-dividend as from Wednesday, 30th August 2017.

The register of members will be closed on Friday, 1st September 2017, 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, 31st August 2017.

## 8. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2017 of HK\$348 million (30th June 2016: HK\$1,111 million; 31st December 2016: HK\$975 million) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2016: 166,324,850; 31st December 2016: 166,324,850).

## 9. PROPERTY, PLANT AND EQUIPMENT AND LAND AND LAND USE RIGHTS

	Property, plant and equipment HK\$M	Land and land use rights HK\$M
Net book value:		
At 1st January 2017	5,264	322
Translation differences	57	7
Additions	348	–
Disposals	(36)	–
Depreciation and amortisation	(261)	(5)
<b>At 30th June 2017</b>	<b>5,372</b>	<b>324</b>

Property, plant and equipment and land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Directors do not consider there to be any additional impairment provision required at 30th June 2017.

The municipal government of Xiamen has announced a proposal to relocate the Gaoqi airport to a new airport in the Xiang'an district. This is subject to central government approval. Management engaged an independent consultant to perform preliminary compensation assessments in order to evaluate the recoverable amounts of the Group's property, plant and equipment and land use rights at the existing Xiamen airport (with net book value totalling HK\$1,354 million at the end of 30th June 2017 (31st December 2016: HK\$1,321 million)) that might be affected by the proposal to develop a new airport and has concluded that the carrying value remains appropriate at 30th June 2017. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

## 10. INTANGIBLE ASSETS

	Goodwill HK\$M	Technical licences HK\$M	Customer relationships HK\$M	Others HK\$M	Total HK\$M
Net book value:					
At 1st January 2017	1,136	358	595	77	2,166
Translation differences	7	2	4	2	15
Additions	–	–	–	2	2
Disposals	–	–	–	(2)	(2)
Amortisation	–	(13)	(25)	(9)	(47)
<b>At 30th June 2017</b>	<b>1,143</b>	<b>347</b>	<b>574</b>	<b>70</b>	<b>2,134</b>

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of impairment reviews on goodwill, HAECO Americas is split into two cash generating units ("CGUs") of airframe services and cabin solutions.

## 10. INTANGIBLE ASSETS (continued)

The impairment assessment for the airframe services CGU has been updated to reflect the loss (with effect from August 2017) of significant work from a major customer. As a result, the amount that the recoverable amount exceeded the carrying amount reduced to HK\$214 million (31st December 2016: HK\$927 million). At 30th June 2017, no impairment indicators were noted for the cabin solutions CGU.

## 11. JOINT VENTURE COMPANIES

The Group's share of the results, assets and liabilities of the joint venture 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
	2017 HK\$M	2016 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2016 HK\$M
At 1st January	<b>1,259</b>	914	914	<b>348</b>	348	348	<b>1,607</b>	1,262	1,262
Translation differences	<b>6</b>	2	1	<b>13</b>	(9)	(25)	<b>19</b>	(7)	(24)
Acquisition of shares	–	452	452	–	–	–	–	452	452
Share of profit	<b>136</b>	924	1,023	<b>45</b>	27	49	<b>181</b>	951	1,072
Share of other comprehensive income	–	6	17	–	–	–	–	6	17
Dividends received from joint venture companies	<b>(115)</b>	(1,064)	(1,148)	–	(11)	(24)	<b>(115)</b>	(1,075)	(1,172)
At period end	<b>1,286</b>	1,234	1,259	<b>406</b>	355	348	<b>1,692</b>	1,589	1,607

## 12. RETIREMENT BENEFITS

The movement in the retirement benefit assets and retirement benefit liabilities recognised in the statement of financial position is as follows:

	Assets	Liabilities
	Expatriate Scheme HK\$M	Local Scheme HK\$M
At 1st January 2017	<b>39</b>	<b>218</b>
Movement due to:		
Net expenses charged to statement of profit or loss	–	<b>50</b>
Contributions paid	–	<b>(29)</b>
<b>At 30th June 2017</b>	<b>39</b>	<b>239</b>

### 13. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments solely for management of an underlying risk. The Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the transactions being hedged. It is the Group's policy not to enter into derivative transactions for speculative purposes.

	Assets		Liabilities	
	30th June 2017 HK\$M	31st December 2016 HK\$M	30th June 2017 HK\$M	31st December 2016 HK\$M
Forward foreign exchange contracts				
– cash flow hedges	2	–	1	6
– not qualifying as hedges	1	1	1	–
Interest rate swaps				
– cash flow hedges	3	3	2	–
<b>Total</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>6</b>
Analysed as:				
Current	3	1	2	6
Non-current	3	3	2	–
	<b>6</b>	<b>4</b>	<b>4</b>	<b>6</b>

### 14. 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 2017 HK\$M	31st December 2016 HK\$M
Trade receivables	1,070	805
Less: provision for impairment of receivables	(43)	(35)
	<b>1,027</b>	<b>770</b>
Amounts due from joint venture companies	9	14
Amounts due from related parties	431	423
Other receivables and prepayments	370	388
	<b>1,837</b>	<b>1,595</b>
The analysis of the age of trade receivables (based on the invoice date) is as follows:		
Under three months	958	700
Between three and six months	46	47
Over six months	66	58
	<b>1,070</b>	<b>805</b>

**15. TRADE AND OTHER PAYABLES**

	30th June 2017 HK\$M	31st December 2016 HK\$M
Trade payables	626	542
Amounts due to joint venture companies	6	6
Amounts due to related parties	38	26
Accrued capital expenditure	36	41
Accruals	890	1,008
Deferred income	526	397
Other payables	132	174
	<b>2,254</b>	<b>2,194</b>
The analysis of the age of trade payables (based on the invoice date) is as follows:		
Under three months	598	535
Between three and six months	26	3
Over six months	2	4
	<b>626</b>	<b>542</b>

Included within accruals are amounts for provisions for certain customer claims. In accordance with the exemption allowed under paragraph 92 of HKAS 37, these amounts are not separately disclosed on the grounds that the Directors believe that doing so could be prejudicial to the eventual outcome of these claims.

**16. DEFERRED TAXATION**

The movement on the net deferred tax assets account is as follows:

	HK\$M
At 1st January 2017	29
Translation differences	1
Charged to statement of profit or loss	(1)
Charged to other comprehensive income	(1)
<b>At 30th June 2017</b>	<b>28</b>
Represented by:	
Deferred tax assets	315
Deferred tax liabilities	(287)
	<b>28</b>

**17. SHARE CAPITAL****Issued and fully paid:**

At 30th June 2017 and 31st December 2016

Company	
Number of shares	HK\$M
<b>166,324,850</b>	<b>185</b>

During the period, the Group did not purchase, sell or redeem any of its shares.

**18. RESERVES**

	Revenue reserve HK\$M	Exchange translation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2017	<b>6,013</b>	<b>(24)</b>	–	<b>5,989</b>
Total comprehensive income for the period	<b>348</b>	<b>73</b>	<b>2</b>	<b>423</b>
2016 second interim dividend	<b>(153)</b>	–	–	<b>(153)</b>
<b>At 30th June 2017</b>	<b>6,208</b>	<b>49</b>	<b>2</b>	<b>6,259</b>

The revenue reserve includes HK\$88 million representing the declared first interim dividend (31st December 2016: HK\$153 million representing the second interim dividend for 2016).

**19. CAPITAL COMMITMENTS**

	30th June 2017 HK\$M	31st December 2016 HK\$M
Outstanding capital commitments at the end of the period:		
Contracted for	<b>643</b>	649
Authorised by Directors but not contracted for	<b>672</b>	747
	<b>1,315</b>	1,396

## 20. RELATED PARTY 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 aggregate transactions which are material to the Group and which have not been disclosed elsewhere in the interim financial statements are summarised below:

Note	Joint venture companies			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	
	2017 HK\$M	2016 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2016 HK\$M
Revenue from rendering of services	<b>22</b>	27	60	<b>1,385</b>	1,367	2,795	<b>1,407</b>	1,394	2,855
	<b>22</b>	27	60	<b>1,385</b>	1,367	2,795	<b>1,407</b>	1,394	2,855
Purchases of:									
Services from John Swire & Sons (H.K.) Limited under services agreement									
– Service fees payable during the period	<i>b</i>	–	–	<b>13</b>	35	39	<b>13</b>	35	39
– Expenses reimbursed at cost	<i>b</i>	–	–	<b>46</b>	45	87	<b>46</b>	45	87
Subtotal	<i>b</i>	–	–	<b>59</b>	80	126	<b>59</b>	80	126
– Share of administrative services		–	–	<b>1</b>	1	5	<b>1</b>	1	5
Total		–	–	<b>60</b>	81	131	<b>60</b>	81	131
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		–	–	<b>2</b>	2	7	<b>2</b>	2	7
Services from Cathay Pacific group	<i>b</i>	–	–	<b>12</b>	26	41	<b>12</b>	26	41
Other services	<i>c</i>	<b>17</b>	12	<b>10</b>	13	28	<b>27</b>	25	56
		<b>17</b>	12	<b>84</b>	122	207	<b>101</b>	134	235

*Notes:*

- Revenue from joint venture companies mainly came from the provision to HAESL of engine component repairs and the provision to HAESL and Goodrich Asia-Pacific Limited of facilities rental on a commercial arm's length basis. Revenue from other related parties mainly came from the provision of aircraft maintenance service.
- These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.
- Purchases from joint venture companies comprised mainly the provision of labour support charge by HAESL.
- Amounts due from and due to joint venture companies and other related parties at 30th June 2017 are disclosed in note 14 and note 15 to the interim financial statements.

### CORPORATE GOVERNANCE

The Company complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained 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 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 and by the external auditors.

### SHARE CAPITAL

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the period.

### DIRECTORS' PARTICULARS

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

1. A.K.W. Tang resigned as an Executive Director of Swire Pacific Limited with effect from 5th May 2017.
2. R.E. Adams retired as an Independent Non-Executive Director of the Company at the conclusion of the 2017 Annual General Meeting held on 12th May 2017.
3. G.T.F. Hughes was re-designated from an Executive Director to a Non-Executive Director of the Company and ceased to be Group Director Components & Engine Services of the Company on his appointment as an Executive Director and Chief Operations and Service Delivery Officer of Cathay Pacific Airways Limited with effect from 1st June 2017.
4. C.P. Gibbs was re-designated from a Non-Executive Director to an Executive Director of the Company and ceased to be Engineering Director of Cathay Pacific Airways Limited on his appointment as Group Director Components & Engine Services of the Company with effect from 1st June 2017.
5. J.R. Slosar was appointed as an Independent Non-Executive Director of PureCircle Limited with effect from 1st July 2017.

## DIRECTORS' INTERESTS

At 30th June 2017, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interests in the shares of John Swire & Sons Limited, an associated corporation of the Company (within the meaning of Part XV of the SFO):

	Capacity			Total no. of shares	Percentage of issued share capital (comprised in the class) (%)
	Beneficial interest		Trust interest		
	Personal	Family			
<b>John Swire &amp; Sons Limited</b>					
<b>Ordinary Shares of £1</b>					
M.B. Swire	2,075,023	130,000	17,546,068	19,751,091	19.75
<b>8% Cum. Preference Shares of £1</b>					
M.B. Swire	2,769,489	–	12,175,623	14,945,112	16.61

Note:

M.B. Swire is a trustee and/or a potential beneficiary of trusts which held 6,222,732 ordinary shares and 1,963,221 preference shares in John Swire & Sons 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 at 30th June 2017 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	Number of shares	Percentage of voting shares (%)	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:

At 30th June 2017:

- Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner.
- John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited were 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 being interested in 55.03% of the equity of Swire Pacific Limited and controlling 63.81% of the voting rights attached to shares in Swire Pacific Limited.

## FINANCIAL CALENDAR 2017

Shares trade ex-dividend	30th August 2017
Interim Report available to shareholders	31st August 2017
Share register closed for first interim dividend entitlement	1st September 2017
Payment of 2017 first interim dividend	19th September 2017
Annual results announcement	March 2018
Annual General Meeting	May 2018

## REGISTERED OFFICE

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

## REGISTRARS

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## STOCK CODE

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## AUDITORS

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