



HIGHLIGHTS

	Six months ended 30th June		Year ended 31st December
	2004	2003	2003
(in HK\$ Million)			
Turnover	1,003	986	1,987
Net operating profit	118	70	104
Share of after tax results of material jointly controlled companies:			
– Hong Kong Aero Engine Services Limited	72	80	158
– Taikoo (Xiamen) Aircraft Engineering Company Limited	47	46	81
Profit attributable to shareholders	232	190	345
Dividends	53	47	306
Shareholders' equity	2,956	2,875	2,983
(number of shares in '000)			
Average number of shares in issue	166,325	166,325	166,325
(in HK\$)			
Earnings per share	1.39	1.14	2.07
Dividends per share	0.32	0.28	0.84
Special dividend per share	–	–	1.00
Shareholders' equity per share	17.77	17.29	17.93

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

Results

The Group's profit attributable to shareholders for the first half of 2004 was HK\$232 million, a 22% increase compared with the profit of HK\$190 million earned during the same period in 2003. This result reflects a return to normality after the downturn in the second quarter last year following the SARS outbreak in the region.

The contribution after tax from Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") during the period was HK\$47 million (2003: HK\$46 million) and from Hong Kong Aero Engine Services Limited ("HAESL") was HK\$72 million (2003: HK\$80 million).

Your directors have today declared an interim dividend of HK¢32 per share (2003: HK¢28) payable on 27th September 2004 to shareholders registered at the close of business on 17th September 2004. This represents an increase of 14% in dividend per share compared with last year, and will cost HK\$53 million. The share register will be closed from 13th September 2004 to 17th September 2004, both dates inclusive.

Review of operations

The Company, either directly or through its jointly-controlled company in Xiamen, TAECO, has comprehensive maintenance contracts covering the fleets of Boeing and Airbus aircraft operated by the Hong Kong based airlines, Cathay Pacific Airways, Dragonair and Air Hong Kong. These contracts cover the provision of line maintenance and hangar-based maintenance as well as the overhaul of certain components. In addition, through its Hong Kong based joint venture with Rolls-Royce plc, HAESL, it provides aero engine maintenance.

Line maintenance activity was in line with expectations in the period, although any comparison with the SARS-affected first half of last year is

meaningless. However, compared with 2002, the average number of aircraft handled daily between January and June has risen 12% from 191 to 214. This growth has come largely from an increase in cargo flights through Hong Kong's International Airport, and to handle this growth, the Company's facilities have been expanded. The provision of technical and non-technical line maintenance services at Hong Kong International Airport continues to be extremely price sensitive.

The airframe maintenance and modification facilities operated by the Company in Hong Kong were heavily utilised during the period with a good mix of work from both Hong Kong based carriers and third party customers. Man-hours sold in the period were 0.74 million, which represents 95% of the maximum man-hours available. This is a 1% increase compared with the corresponding period in 2003.

TAECO's usage of its three hangars this year has been good. To provide the capacity needed to handle the announced programme of Boeing 747-400 passenger aircraft to freighter conversions, and expected growth in the fleets of its major customers, TAECO has started work on building its fourth hangar, which is scheduled to open in the first quarter of 2006. Line maintenance operations in Xiamen, Shanghai and Beijing continue to run smoothly, and growth is in line with the increase in the number of flights operated by non-domestic carriers.

HAESL reported lower profits in the first half of 2004 compared to 2003, a reflection of a change in the mix of engines and the related worksopes put through its facilities, although 96 engines were completed in this period compared to 90 last year. The projected workload continues to be healthy. While Cathay Pacific is still the principal customer, about 64% of the business is derived from other regional carriers and Rolls-Royce.

CHAIRMAN'S STATEMENT

Financial review

Turnover

		Six months ended 30th June		
	Note	2004 HK\$M	2003 HK\$M	Change
The Company and its subsidiary company	1	1,003	986	2%
HAESL		1,906	2,008	-5%
TAECO		383	348	10%
Other jointly controlled companies		191	147	30%
Total		3,483	3,489	-

Notes: 1. As disclosed on the face of the profit and loss account in accordance with reporting requirements in Hong Kong.

2. The whole of the turnover for the jointly controlled companies is included in this table.

Turnover increased 2% during the period, primarily reflecting the increased number of aircraft movements through Hong Kong International Airport.

Operating profit increased from HK\$70 million to HK\$119 million, reflecting the increased revenue, a decrease in insurance premiums and a decrease in contributions to the retirement benefit schemes.

The contribution before tax from jointly controlled companies, mainly TAECO and HAESL, decreased 7% from HK\$165 million to HK\$153 million.

Cash, cash equivalents and short term deposits, net of borrowings at 30th June 2004 were HK\$199 million, compared to HK\$420 million at 31st December 2003. The decrease in the period primarily reflects the payment of a special dividend that amounted to HK\$166 million.

Outlook

Although various events in recent years have distorted the picture, traditionally the first half of the year has been stronger for the aircraft heavy maintenance industry in Hong Kong than the second half of the year. This is because our customers need to maximise the use of their aircraft during the summer holiday period and for shipping freight for the Christmas season. This is the case now and, consequently, utilisation of the Company's hangar facilities in the second half of the year is unlikely to be able to match that of the first half.

On the other hand, higher aircraft usage should lead to more transit checks and higher line maintenance revenue, which will at least partially offset the weakness in the heavy maintenance market.

Whilst, therefore, there is likely to be some weaknesses in certain areas during the second half of 2004, the outlook for the Company for the year as a whole is good.

David Turnbull

Chairman

Hong Kong, 10th August 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30th June 2004 – unaudited

	Note	Six months ended 30th June		Year ended 31st December		
		2004 HK\$M	2003 HK\$M	2003 HK\$M		
Turnover	2	1,003	986	1,987		
Operating expenses:						
Staff remuneration		(516)	(518)	(1,045)		
Cost of direct material/job expenses		(167)	(270)	(480)		
Depreciation		(64)	(64)	(129)		
Operating lease rentals – land & buildings		(22)	(26)	(50)		
Auditors' remuneration		–	–	(1)		
Changes in work in progress		(6)	40	1		
Other operating expenses		(109)	(78)	(175)		
Operating profit	2	119	70	108		
Net finance charges	3	(1)	–	(4)		
Net operating profit		118	70	104		
Share of results of jointly controlled companies	7	153	165	307		
Profit before taxation		271	235	411		
Taxation	4	(39)	(45)	(66)		
Profit attributable to shareholders		232	190	345		
Dividends – paid/proposed						
Interim		53	47	47		
Final		–	–	93		
Special		–	–	166		
		53	47	306		
		HK\$	HK\$	HK\$		
Earnings per share	5	1.39	1.14	2.07		
		2004	2003			
		Interim HK\$	Interim HK\$	Final HK\$	Special HK\$	Total HK\$
Dividends per share		0.32	0.28	0.56	1.00	1.84

CONSOLIDATED BALANCE SHEET

at 30th June 2004 – unaudited

	Note	30th June 2004 HK\$M	31st December 2003 HK\$M
Fixed assets	6	1,465	1,513
Investment in jointly controlled companies	7	1,182	1,122
Deferred items			
Staff loans		5	5
Retirement benefit asset	8	240	196
Deferred taxation		(157)	(140)
		88	61
Current assets			
Stocks of aircraft parts		34	33
Work in progress		64	70
Debtors and prepayments	9	281	202
Amounts due from jointly controlled companies		9	15
Deposits maturing after three months		12	12
Short term deposits and bank balances		187	408
		587	740
Current liabilities			
Creditors and accruals	9	254	329
Term loan due within one year	11	4	4
Amount due to jointly controlled companies		5	15
		263	348
Net current assets		324	392
		3,059	3,088
Financed by :			
Share capital	10	166	166
Reserves		2,790	2,817
Shareholders' equity		2,956	2,983
Minority interest		5	5
Long term loan	11	98	100
		3,059	3,088

CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June 2004 – unaudited

	Six months ended 30th June		Year ended 31st December
	2004 HK\$M	2003 HK\$M	2003 HK\$M
Operating activities			
Cash generated from operations	(14)	14	253
Interest paid	(5)	(4)	(9)
Interest received	3	5	6
Net cash (outflow)/inflow from operating activities	(16)	15	250
Investing activities			
Purchase of fixed assets	(18)	(29)	(47)
Sale of fixed assets	3	1	2
Loans advanced to jointly controlled companies	–	(11)	(11)
Loans repaid by jointly controlled companies	62	90	188
Dividends received from jointly controlled companies	9	7	33
Net decrease in short-term deposits maturing after three months	–	60	60
Net cash inflow from investing activities	56	118	225
Financing activities			
Repayment of term loan	(2)	(2)	(3)
Dividends paid to shareholders	(259)	(492)	(539)
Net cash outflow from financing activities	(261)	(494)	(542)
Decrease in cash and cash equivalents	(221)	(361)	(67)
Cash and cash equivalents at 1st January	408	475	475
Cash and cash equivalents at 30th June	187	114	408

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2004 – unaudited

	Share capital HK\$M	Revenue reserve HK\$M	Capital redemption reserve HK\$M	Total HK\$M
Total equity at 1st January	166	2,798	19	2,983
Profit attributable to shareholders	–	232	–	232
2003 final dividends paid	–	(93)	–	(93)
2003 special dividends paid	–	(166)	–	(166)
Total equity at 30th June	166	2,771	19	2,956

NOTES TO THE ACCOUNTS

1. Basis of preparation

The interim financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice (“HK SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). There have been no change to the principal accounting policies adopted in the 2003 annual report.

2. Segmental information

The Company is engaged in the business of maintenance, modification and repair of commercial aircraft in Hong Kong. No further business segmental information has therefore been reported.

The Group’s jointly controlled companies, all of which are engaged in the same business as the Company, operate in Hong Kong and overseas. Financial summaries of the jointly controlled companies are provided under note 7.

3. Net finance charges

	Six months ended 30th June		Year ended 31st December
	2004 HK\$M	2003 HK\$M	2003 HK\$M
Finance income	3	4	5
Interest on long term loan not wholly repayable within five years (note 11)	(4)	(4)	(9)
	(1)	–	(4)

4. Taxation

	Six months ended 30th June		Year ended 31st December
	2004 HK\$M	2003 HK\$M	2003 HK\$M
The taxation charge comprises:			
The Company and its subsidiary company:			
Deferred taxation			
Origination of temporary differences	17	6	11
Effect of changes in tax rate	–	11	11
	17	17	22
Share of taxation attributable to jointly controlled companies:			
Hong Kong taxation	17	23	38
Overseas taxation	5	5	6
	22	28	44
	39	45	66

No provision for Hong Kong profits tax has been made for the period as the Company's assessable profit is wholly absorbed by the tax losses brought forward. Hong Kong profits tax is calculated at 17.5% (2003: 17.5%). Overseas taxation is calculated at tax rates prevailing in the respective jurisdictions.

5. Earnings per share

Earnings per share are calculated by reference to the profit attributable to shareholders for the period ended 30th June 2004 of HK\$232 million (period ended 30th June 2003: HK\$190 million) and to the weighted average 166,324,850 (period ended 30th June 2003: 166,324,850) ordinary shares in issue during the period.

6. Fixed assets

	Property, plant and equipment
	Six months ended 30th June 2004 HK\$M
Net book value:	
At 31st December 2003	1,513
Additions and transfers	18
Disposals	(2)
Depreciation	(64)
At 30th June 2004	1,465

NOTES TO THE ACCOUNTS

7. Jointly controlled companies

The financial results of the jointly controlled companies for the period ended 30th June 2004 are as follows:

	HAESL (Operating in Hong Kong)		TAECO (Operating in Mainland China)		Others		Total	
	Six months ended 30th June		Six months ended 30th June		Six months ended 30th June		Six months ended 30th June	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Turnover	1,906	2,008	383	348	191	147	2,480	2,503
Operating profit	193	231	97	107	35	33	325	371
Net finance (charges)/income	-	(5)	1	-	(1)	(1)	-	(6)
Share of results of jointly controlled companies	2	(1)	8	(3)	-	-	10	(4)
Profit before taxation	195	225	106	104	34	32	335	361
Taxation	(34)	(47)	(10)	(11)	(6)	(3)	(50)	(61)
Profit attributable to shareholders	161	178	96	93	28	29	285	300
Dividends	-	-	-	-	(18)	(14)	(18)	(14)
Surplus retained for the period	161	178	96	93	10	15	267	286
Funds employed:								
Long-term assets	848	800	825	844	179	155	1,852	1,799
Current assets	1,225	1,083	329	260	184	159	1,738	1,502
	2,073	1,883	1,154	1,104	363	314	3,590	3,301
Less: current liabilities	(649)	(533)	(88)	(88)	(163)	(144)	(900)	(765)
	1,424	1,350	1,066	1,016	200	170	2,690	2,536
Financed by:								
Shareholders' equity and loans	1,344	1,284	1,052	1,002	167	155	2,563	2,441
Long-term liabilities	80	66	14	14	33	15	127	95
	1,424	1,350	1,066	1,016	200	170	2,690	2,536
Group's % shareholding in the period	45.0%	45.0%	49.6%	49.6%				
Group's attributable pre-tax profits	87	101	52	51	14	13	153	165
Less: share of taxation thereon	(15)	(21)	(5)	(5)	(2)	(2)	(22)	(28)
Group's share of profit attributable to shareholders	72	80	47	46	12	11	131	137
Group's share of funds employed at 30th June	605	578	521	493	56	48	1,182	1,119

8. Retirement benefit asset

Movement in the asset recognised in the balance sheet:

	Six months ended 30th June 2004		
	Local scheme HK\$M	Expatriate scheme HK\$M	Total HK\$M
At 31st December 2003	158	38	196
Total expense charged	(27)	(1)	(28)
Contributions paid	70	2	72
At 30th June 2004	201	39	240

9. Debtors and creditors – credit risks and ageing analysis

The credit terms given to customers vary and are generally based on their individual financial strengths. Credit evaluations of debtors are performed periodically to minimise any credit risk associated with receivables.

As at 30th June 2004, 99% of debtors (98% as at 31st December 2003) and 92% of creditors (98% as at 31st December 2003) were aged under six months.

10. 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 company on the Stock Exchange. As at 30th June 2004, 166,324,850 shares were in issue (31st December 2003: 166,324,850 shares).

NOTES TO THE ACCOUNTS

11. Long-term loan

	30th June 2004 HK\$M	31st December 2003 HK\$M
Maturity profile:		
Repayable within one year	4	4
Repayable between one and two years	4	4
Repayable between two and five years	15	15
Repayable after five years	79	81
	102	104
Amount due within one year included under current liabilities	(4)	(4)
	98	100
		HK\$M
At 31st December 2003		104
Repayment during the period		(2)
At 30th June 2004		102

The loan is provided by a subsidiary of Cathay Pacific Airways Limited, is unsecured, interest bearing at 8.35% per annum and is repayable by equal semi-annual instalments to June 2018.

12. Related party transactions

In addition to those disclosed elsewhere in the interim report, material transactions between the Group and related parties which were conducted on normal commercial terms in the ordinary and usual course of business are listed below:

	Note	Jointly controlled companies		Other related parties		Total	
		Six months ended 30th June		Six months ended 30th June		Six months ended 30th June	
		2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Revenue from the provision of services	(a)	92	127	567	495	659	622
Purchase of services	(b)	2	–	20	31	22	31

Note:

- (a) Revenue from the provision of services to jointly controlled companies comprised mainly services to HAESL and TAECO. Services provided to HAESL included engine component repairs charged at normal commercial rates and the provision of certain administrative services charged at cost based on the agreement with Rolls-Royce plc concerning the formation of HAESL. Services provided to TAECO related principally to charges at commercial rates covering the stationing of a working team of 145 people on average in TAECO and management services. Services provided to other jointly controlled companies included component and other operational support charged at normal commercial rates.

Revenue from the provision of services to other related parties comprised maintenance charges for the Cathay Pacific Airways, Dragonair and Air Hong Kong fleets as well as logistic support and storage charges for Cathay Pacific Airways Limited.

- (b) Purchases of services from jointly controlled companies comprised mainly overhaul charges for work carried out on aircraft components by HAESL.

	Six months ended 30th June	
	2004 HK\$M	2003 HK\$M
Purchases of services from other related parties comprised:		
Spares purchased from Cathay Pacific Airways Limited	9	20
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited	2	1
Services fee payable to John Swire & Sons (H.K.) Limited	3	2
Reimbursement, at cost, of expenses incurred, payable to John Swire & Sons (H.K.) Limited	6	8
	20	31

With the exception of the insurance premium payable to SPACIOM as described in note (b), none of the above related party transactions constitute a discloseable connected transaction as defined in the Listing Rules.

13. Subsequent event

SIA Engineering Company Pte Limited has agreed to sell back to the Company its remaining 5% shareholding in TAECO. The transaction is expected to be completed by the end of September 2004.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Results for the six months ended 30th June 2004 – unaudited

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

Interim dividend

An interim dividend of HK¢32 (2003: HK¢28) per share has today been declared and it is expected that this will be paid on 27th September 2004 to shareholders registered at the close of business on 17th September 2004. The share register will be closed from 13th September 2004 to 17th September 2004, both dates inclusive.

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 company.

Corporate governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has adopted a code of conduct regarding Directors' securities transactions (the "Securities Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules.

All Directors have complied with the required standard set out in the Model Code and its Securities Code.

Disclosure of interests

Directors' interests

At 30th June 2004, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that the following Directors held beneficial interests in the shares of Hong Kong Aircraft Engineering Company Limited:

	Personal	Other	Total	Percentage of issued capital (%)
Dr The Hon Michael Kadoorie (alternate Director)	–	3,782,886*	3,782,886	2.27
Dinty Dickson Leach	112,000	–	112,000	0.07

* Dr The Hon Michael Kadoorie is a beneficiary of discretionary trusts which hold these shares.

Other than as stated above, no Directors 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).

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Disclosure of interests *(continued)*

Substantial shareholders' interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2004 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders (as defined in the Listing Rules), all being beneficial interests:

	Number of shares	Percentage of issued capital (%)	Remarks
John Swire & Sons Limited	99,649,103	59.91	
Swire Pacific Limited	99,649,103	59.91)	Duplication of John Swire & Sons
Cathay Pacific Airways Limited	45,649,686	27.45)	Limited's holding (see Note)

Note: At 30th June 2004, the John Swire & Sons Limited group owned directly or indirectly interests in shares of Swire Pacific Limited representing 29.47% of the issued share capital and 52.87% of the voting rights; Swire Pacific Limited in turn controlled 46.5% of Cathay Pacific Airways Limited.

Other interests

In addition, at 30th June 2004 the register of interests in shares and short positions maintained under Section 336 of the SFO showed the following interest in the shares of the Company held in the capacity of investment manager:

	Number of shares	Percentage of issued capital (%)
Marathon Asset Management Limited	14,985,730	9.01

CORPORATE INFORMATION

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PricewaterhouseCoopers

Principal Banker

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Corporation Limited

Registrars

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