



**Hong Kong Aircraft Engineering
Company Limited**
2011 Interim Report

Stock Code: 00044



Financial Highlights

		Six months ended 30th June		
		2011	2010	Change
Results				
Turnover	HK\$ Million	2,544	2,049	+24.2%
Net operating profit	HK\$ Million	341	197	+73.1%
Share of after-tax results of jointly controlled companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	HK\$ Million	194	167	+16.2%
– Other jointly controlled companies	HK\$ Million	10	21	-52.4%
Profit attributable to the Company's shareholders	HK\$ Million	425	338	+25.7%
Earnings per share attributable to the Company's shareholders (basic and diluted)	HK\$	2.56	2.03	+25.7%
Interim dividend per share	HK\$	0.70	0.45	+55.6%

		30th June 2011	31st December 2010	Change
Financial Position				
Net borrowings	HK\$ Million	19	176	-89.2%
Gearing ratio	%	0.3	2.7	-2.4%pt
Total equity	HK\$ Million	6,813	6,484	+5.1%
Equity attributable to the Company's shareholders per share	HK\$	34.82	33.45	+4.1%

		Six months ended 30th June		
		2011	2010	Change
Cash Flows				
Net cash generated from/(used in) operating activities	HK\$ Million	422	(33)	+1,378.8%
Net cash inflow/(outflow) before financing activities	HK\$ Million	487	(65)	+849.2%

Note:

The weighted average number of shares in issue is 166,324,850 in 2011 (2010: 166,324,850).

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

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Chairman's Letter

The HAECO Group reported an attributable profit of HK\$425 million for the first six months of 2011. This compares with a profit of HK\$338 million for the first six months of 2010. Earnings per share were up 25.7% to HK\$2.56. Turnover rose by 24.2% to HK\$2,544 million.

The Directors have declared an interim dividend of HK\$0.70 per share (2010: HK\$0.45 per share) for the period ended 30th June 2011, an increase of 55.6% over the interim dividend paid in 2010. Shareholders should note that the significant increase in the interim dividend, as compared with the increase in the profit for the period, is intended to align interim and final dividends to an approximate ratio of one-third to two-thirds of dividends for the year. It should be recognised therefore that the final dividend will not increase at the same rate and may well be lower than that of the previous year.

The interim dividend, which totals HK\$116 million (2010: HK\$75 million), will be paid on 20th September 2011 to shareholders registered at the close of business on the record date, being Friday, 2nd September 2011. Shares of the Company will be traded ex-dividend as from Wednesday, 31st August 2011. The register of members will be closed on Friday, 2nd September 2011, during which day no transfer of shares will be effected. In order to qualify for entitlement to the 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, 1st September 2011.

Demand for HAECO's airframe heavy maintenance and line maintenance services in Hong Kong remained strong during the first half of 2011, reflecting continued strength in the aviation industry generally. Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") experienced a recovery in demand for its airframe heavy maintenance

services, although demand for passenger to freighter conversions of Boeing 747 aircraft remained weak. Results from Hong Kong Aero Engine Services Limited ("HAESL"), the Company's joint venture engine overhaul facility in Hong Kong, improved slightly. This reflected increased work scope per engine. The Group's new joint ventures in Mainland China continued to report start up losses as expected.

The Group continued to invest in Hong Kong and Mainland China in order to expand its facilities and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure during the first half of 2011 was HK\$211 million. Capital expenditure committed at the end of June was HK\$836 million.

In June, TAECO opened its sixth hangar in Xiamen, Taikoo Engine Services (Xiamen) Company Limited ("TEXL") completed the expansion of its engine overhaul facilities and HAESL's component repair extension was completed. This extension will commence full operations in the last quarter of 2011.

The outlook for the second half of 2011 is mixed. Assuming continued growth in the aviation industry, demand for HAECO's airframe heavy maintenance and line maintenance services in Hong Kong is expected to remain strong. Forward bookings for TAECO's airframe heavy maintenance in the second half are weak and TAECO's capacity utilisation is likely to fall following the opening of its sixth hangar. HAESL's performance is expected to be adversely affected by continued delays in the supply of spare parts. The joint ventures in Mainland China are expected to continue to be adversely affected by weak demand.

Christopher Pratt

Chairman

Hong Kong, 9th August 2011

2011 Interim Review

The Group's business improved in the first half of 2011. Against a favourable aviation industry background, the Group continued to expand its capacity and capabilities.

TECHNICAL TRAINING

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

HAECO's training centre conducted 357 training courses for 5,155 internal and external students in the first half of 2011.

TAECO's training centre conducted 465 training courses for 8,880 internal students and 95 training courses for over 1,400 external students in the first half of 2011. The external students came from Mainland China, Hong Kong, Singapore, Malaysia, Pakistan, Sri Lanka, South Korea and Thailand.

TAECO's training centre continued to develop new training capabilities. In the first half of 2011, TAECO received approvals to provide training in relation to turbine engine test cell testing, turbine engine overhaul, and repair and maintenance for Boeing 747-8 aircraft.

COMPETENCY AND TECHNOLOGY

During the first half of 2011, HAECO received approvals from the civil aviation authority of Japan to undertake major maintenance of Boeing 747-400 aircraft, from the civil aviation authority of Saudi Arabia to undertake maintenance of Boeing 747-400, Boeing 777-200 and Boeing MD-11 aircraft, from the civil aviation authority of Indonesia to undertake maintenance of Boeing 737 and Airbus A320 aircraft and from the civil aviation authority of India to undertake maintenance of Airbus A310, Airbus A320, Airbus A330, Boeing 777-200 and Boeing 777-300 aircraft.

During the first half of 2011, TAECO received permanent approvals from the civil aviation authority of Mainland China to undertake passenger to freighter conversions of Boeing 737, Boeing 747 and Boeing 757 aircraft, from the civil aviation authority of Japan to undertake line maintenance of Boeing 737 NG aircraft and Boeing 767 freighters in Xiamen and from the civil aviation authority of the European Union to undertake maintenance of GE90 and PW4000 engines on Boeing 777 aircraft.

TAECO has received approvals for its newly constructed sixth hangar from the civil aviation authorities of Mainland China and Hong Kong. TAECO was authorised by Airbus as an approved corporate and executive jet cabin completion centre in March – the first such approved centre in the Asia Pacific region.

Singapore HAECO Pte. Limited ("SHAECO") received approvals from the civil aviation authority of the European Union to undertake maintenance of Airbus A330 and Airbus A340 aircraft, from the civil aviation authority of Australia to undertake maintenance of Airbus A330 aircraft and from the civil aviation authority of India to undertake maintenance of Airbus A320 aircraft. SHAECO's application to the civil aviation authority of Singapore to undertake maintenance of RB211-524 engines is in progress.

During the first half of 2011, TEXL received approvals from the civil aviation authorities of Mainland China, the European Union and the United States to do additional work on GE90-110B and GE90-115B engines, including strip and build, component cleaning, non-destructive testing and inspection of piece parts.

Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited ("Dunlop Taikoo") has received approval from the civil aviation authority of the European Union to retread a broader variety of products manufactured by the Bridgestone and Dunlop companies.

Honeywell TAECO Aerospace (Xiamen) Company Limited is increasing its ability to repair hydromatic mechanical units by installing new computers and tooling.

Taikoo (Shandong) Aircraft Engineering Company Limited has received approval from the civil aviation authority of Mainland China to undertake maintenance of Bombardier CL600-2B16 aircraft.

Taikoo Sichuan Aircraft Engineering Services Company Limited ("Taikoo Sichuan") has received approvals from the civil aviation authorities of Mainland China, Hong Kong and Macau to extend its business to customers from Hong Kong and Macau and has applied for such approval from the civil aviation authority of the United States. Taikoo Sichuan has also applied to the civil aviation authority of Mainland China for approval to undertake airframe light maintenance checks on COMAC ARJ21-700 aircraft. This approval is expected to be obtained before the end of 2011.

Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("Taikoo Spirit") has extended its thrust reverser overhaul capability so that it covers engines on Boeing 737-700/800/900 and Boeing 777 aircraft.

Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO") has developed its landing gear capability so that it covers landing gear on Boeing 737 and Boeing 777 aircraft.

INVESTMENT AND DEVELOPMENT

TAECO opened its sixth wide-body double bay hangar at Xiamen in June 2011. Its six hangars are now able to accommodate 12 wide-body aircraft and five narrow-body aircraft simultaneously.

Taikoo Sichuan's second hangar, with an estimated investment of HK\$199 million, has been approved. Its construction is expected to commence in the second half of 2011.

The HK\$144 million extension to TEXTL's facility was completed in the first half of 2011. TEXTL continues to invest in equipment and tooling to support the development of its capability to work on GE90-110B and GE90-115B engines.

In June 2011, HAESL opened its Centre of Excellence. This 13,500 square metre extension to its existing component repair facility will commence full operations in the fourth quarter of 2011. This is a HK\$389 million investment designed to cater for the rapid growth which is expected in demand for component repair.

Taikoo Spirit and Dunlop Taikoo have received approvals from the central authority to undertake domestic business in Mainland China. These approvals enable the two companies to offer their services to local customers in Mainland China.

Review of Operations and Financial Review

REVIEW OF OPERATIONS

HAECO and TAECO sold 3.39 million manhours for airframe heavy maintenance in the first half of 2011. The workload increased at both companies. Both companies also performed more line maintenance, reflecting increased aircraft movements.

The profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		Change
	2011 HK\$M	2010 HK\$M	
HAECO	195	151	+29%
TAECO	78	39	+100%
Share of:			
HAESL and SAESL	194	167	+16%
Other subsidiary and jointly controlled companies	(42)	(19)	-121%
	425	338	+26%

	Six months ended 30th June		Change
	2011	2010	
Airframe heavy maintenance sold manhours (in millions)			
HAECO	1.58	1.39	+14%
TAECO	1.81	1.33	+36%
Line maintenance movements in Hong Kong (per day)	299	262	+14%

HAECO

HAECO's Hong Kong operations comprise airframe heavy maintenance in its hangars, line maintenance at the passenger and cargo terminals at Hong Kong International Airport, component overhaul at Tseung Kwan O, inventory technical management and fleet technical management. Business in Hong Kong improved in the first half of 2011 and the Company recorded a 29% increase in profit compared to the first half in 2010.

Airframe heavy maintenance manhours sold were 1.58 million, 14% higher than in the first half of 2010, as the aviation industry continued to improve. Approximately 73% of the work was for airlines based outside Hong Kong.

Line maintenance aircraft movements increased by 14% compared with the first half of 2010, with an average of 299 aircraft handled per day. This reflected growth in air traffic.

Component repair activity at the Tseung Kwan O facility totalled 0.135 million manhours sold, 2% higher than that of the first half of 2010. The growth reflected the strength of the aviation industry and HAECO's own increase in capability.

HAECO provides inventory technical management for rotatable spares for Airbus A300-600F, Airbus A330 and Boeing 747-200F aircraft. The Company also provides fleet technical management for Airbus A319, Airbus A320, Boeing 747-200F and Boeing 747-400F aircraft.

TAECO

TAECO's hangar utilisation improved in the first half of 2011. This reflected a recovery in demand for airframe heavy maintenance services. The company reported a 100% increase in profit. Manhours sold for the first half of 2011 increased by 36% to 1.81 million hours.

The line maintenance operations in Xiamen, Beijing, Tianjin and Shanghai handled an average of 54 aircraft movements per day in the first half of 2011. This represented an increase of 23% compared with the first half of 2010.

TAECO is developing new sources of revenue – the design and completion of cabin interiors for executive and corporate jets, and training for airline customers. Revenue from manufacturing grew by 100% and that from training reduced slightly by 1% in the first half of 2011 compared with the first half of 2010.

Demand for passenger to freighter conversions remained weak, with only one Boeing 747-400 aircraft being converted in the first half of 2011.

HAESL

HAESL (45% owned) recorded a 14% increase in profit in the first half of 2011 compared to the first half of 2010. This reflected increased work scope per engine. The total number of engines overhauled decreased to 89 from 99 completed in the first half of 2010. This resulted from delays in the supply of spare parts.

Singapore Aero Engine Services Pte. Limited ("SAESL"), in which HAESL has a 20% interest, recorded better results in the first half of 2011 than in the first half of 2010. This reflected an increase in the total number of engines overhauled.

OTHER PRINCIPAL SUBSIDIARY AND JOINTLY CONTROLLED COMPANIES

The results of the Group's other subsidiary and jointly controlled companies during the period were broadly in line with expectations. The new joint ventures in Mainland China continued to sustain losses. This reflected lack of work and full depreciation and amortisation expenses during start up periods.

TEXL (owned 75.01% by HAECO and 10% by TAECO) completed nine quick-turn work scope engines in the first half of 2011. It reported a loss because of the light work scope of the engines.

TALSCO (owned 50% by HAECO and 10% by TAECO) reported a loss in the first half of 2011 similar to that of 2010: capacity utilisation remained low.

STAFF

The Group's headcount was:

	30th June 2011	31st December 2010	Change
HAECO	5,115	4,967	+3%
TAECO	5,054	4,739	+7%
HAESL	974	901	+8%
Other subsidiary and jointly controlled companies in which HAECO and TAECO own more than 20%	2,548	2,471	+3%
	13,691	13,078	+5%

FINANCIAL REVIEW

TURNOVER

Turnover increased by 24% to HK\$2,544 million, with a 14% increase in HAECO's turnover in Hong Kong and a 45% increase in that of TAECO.

	Six months ended 30th June		Change
	2011 HK\$M	2010 HK\$M	
HAECO	1,641	1,439	+14%
TAECO	826	570	+45%
Others	77	40	+93%
	2,544	2,049	+24%

OPERATING EXPENSES

Operating expenses increased by 19% to HK\$2,209 million in line with the business growth.

	Six months ended 30th June		Change
	2011 HK\$M	2010 HK\$M	
Staff remuneration and benefits	1,134	964	+18%
Cost of direct material and job expenses	585	462	+27%
Depreciation, amortisation and impairment	203	184	+10%
Other operating expenses	287	239	+20%
	2,209	1,849	+19%

PROFIT

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

	HK\$M	
2010 interim profit	338	
Turnover		
HAECO	202	The increase principally reflects increased airframe heavy maintenance (with 14% more manhours sold) and increased line maintenance (with 14% more aircraft movements). The increases reflect the continued growth in the aviation industry.
TAECO	256	The increase principally reflects increased airframe heavy maintenance (with 36% more manhours sold), reflecting increased demand from its principal customers.
Others	37	The increase principally reflects engine repair work at TEXL which started operations in mid 2010 and the new Jetstar line maintenance contract at SHAECO.
Staff remuneration and benefits	(170)	The increase reflects salary increases and more headcount.
Cost of direct material and job expenses	(123)	The increase reflects an increase in business volume.
Depreciation, amortisation and impairment	(19)	The increase is mainly due to the start of operations at TEXL in mid 2010 and the acquisition of new equipment by SHAECO, also in mid 2010.
Other operating expenses	(48)	
Share of after-tax results of jointly controlled companies	16	The increase reflects higher profits of HAESL and SAESL.
Taxation	(53)	The increase reflects higher profits.
Other items	9	
Non-controlling interests	(20)	The increase reflects a higher profit at TAECO.
2011 interim profit	425	

FINANCIAL POSITION

- Total assets at 30th June 2011 were HK\$9,584 million. Additions to fixed assets were HK\$277 million, principally comprising HK\$202 million for plant, machinery and tools.
- At 30th June 2011, the Group's net borrowings decreased to HK\$19 million from HK\$176 million, with a gearing ratio of 0.3%.
- Total borrowings at 30th June 2011 were HK\$1,332 million, of which HK\$1,034 million were denominated in US dollars and HK\$298 million were in HK dollars. Concerning the maturity of the borrowings, HK\$682 million were repayable within one year; HK\$460 million were repayable between one and two years while HK\$190 million were repayable between two to five years.
- Committed loan facilities amounted to HK\$2,988 million at 30th June 2011, of which HK\$1,900 million were undrawn. There were uncommitted facilities of HK\$540 million, of which HK\$296 million were undrawn.
- TAECO mitigates its exposure to changes in the exchange rate of the US dollar against Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 30th June 2011, TAECO had sold forward a total of US\$26 million to fund part of its Renminbi requirement for 2011 to 2013.

Consolidated Income Statement

for the six months ended 30th June 2011 – unaudited

	Note	Six months ended 30th June		Year ended 31st December	
		2011 HK\$M	2010 HK\$M	2010 HK\$M	
Turnover	4	2,544	2,049	4,266	
Operating expenses:					
Staff remuneration and benefits		(1,134)	(964)	(1,963)	
Cost of direct material and job expenses		(585)	(462)	(1,048)	
Depreciation, amortisation and impairment		(203)	(184)	(381)	
Insurance and utilities		(62)	(54)	(118)	
Operating lease rentals – land and buildings		(79)	(69)	(136)	
Repairs and maintenance		(68)	(61)	(123)	
Other		(78)	(55)	(121)	
		(2,209)	(1,849)	(3,890)	
Other net gains/(losses)		10	(1)	21	
Operating profit	4	345	199	397	
Net finance charges	5	(4)	(2)	(8)	
Net operating profit		341	197	389	
Share of after-tax results of jointly controlled companies	10	204	188	407	
Profit before taxation		545	385	796	
Taxation	6	(73)	(20)	(73)	
Profit for the period		472	365	723	
Profit attributable to:					
The Company's shareholders		425	338	701	
Non-controlling interests		47	27	22	
		472	365	723	
Dividends					
Interim – proposed/paid		116	75	75	
Final – paid		–	–	274	
		116	75	349	
		HK\$	HK\$	HK\$	
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	7	2.56	2.03	4.21	
		2011	2010		
		Interim HK\$	Interim HK\$	Final HK\$	Total HK\$
Dividends per share		0.70	0.45	1.65	2.10

Consolidated Statement of Comprehensive Income

for the six months ended 30th June 2011 – unaudited

	Six months ended 30th June		Year ended 31st December
	2011 HK\$M	2010 HK\$M	2010 HK\$M
Profit for the period	472	365	723
Other comprehensive income:			
Changes in cash flow hedges			
– recognised during the period	2	(1)	5
– transferred to other net gains	(3)	3	–
Net translation differences on foreign operations	132	17	34
Other comprehensive income for the period, net of tax	131	19	39
Total comprehensive income for the period	603	384	762
Total comprehensive income attributable to:			
The Company's shareholders	502	352	731
Non-controlling interests	101	32	31
	603	384	762

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

Consolidated Statement of Financial Position

at 30th June 2011 – unaudited

	Note	30th June 2011 HK\$M	31st December 2010 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	4,740	4,615
Leasehold land and land use rights	8	369	312
Intangible assets	9	576	570
Jointly controlled companies	10	1,070	1,064
Derivative financial instruments	12	1	1
Deferred tax assets		44	39
Retirement benefit assets	11	309	301
		7,109	6,902
Current assets			
Stocks of aircraft parts		280	289
Work in progress		130	147
Trade and other receivables	13	747	740
Derivative financial instruments	12	6	7
Cash and cash equivalents		1,213	1,098
Short-term deposits		99	154
		2,475	2,435
Current liabilities			
Trade and other payables	14	963	972
Taxation payable		114	65
Short-term loans		128	223
Long-term loans due within one year		554	639
		1,759	1,899
Net current assets		716	536
Total assets less current liabilities		7,825	7,438
Non-current liabilities			
Long-term loans		649	566
Receipt in advance		63	69
Deferred tax liabilities		300	319
		1,012	954
NET ASSETS		6,813	6,484
EQUITY			
Share capital	15	166	166
Reserves	16	5,625	5,397
Equity attributable to the Company's shareholders		5,791	5,563
Non-controlling interests		1,022	921
TOTAL EQUITY		6,813	6,484

Consolidated Statement of Cash Flows

for the six months ended 30th June 2011 – unaudited

	Six months ended 30th June		Year ended 31st December
	2011 HK\$M	2010 HK\$M	2010 HK\$M
Operating activities			
Cash generated from/(used in) operations	473	(46)	478
Interest paid	(12)	(4)	(13)
Interest received	8	4	8
Profits tax (paid)/recovered	(47)	13	8
Net cash generated from/(used in) operating activities	422	(33)	481
Investing activities			
Purchase of property, plant and equipment	(210)	(214)	(416)
Additions of intangible assets	(1)	(15)	(16)
Proceeds from disposals of property, plant and equipment	1	6	8
Purchase of shares in an existing subsidiary company	–	–	(62)
Loans to a jointly controlled company	(23)	(5)	(11)
Repayment of loans by a jointly controlled company	30	–	4
Dividends received from jointly controlled companies	210	181	334
Net decrease/(increase) in short-term deposits other than cash and cash equivalents	58	15	(15)
Net cash generated from/(used in) investing activities	65	(32)	(174)
Net cash inflow/(outflow) before financing activities	487	(65)	307
Financing activities			
Proceeds from loans	24	514	707
Repayment of loans	(122)	(320)	(405)
Advance from a non-controlling interest	24	–	–
Dividends paid to the Company's shareholders	(274)	(249)	(324)
Dividends paid to non-controlling interests	(33)	(34)	(34)
Net cash used in financing activities	(381)	(89)	(56)
Net increase/(decrease) in cash and cash equivalents	106	(154)	251
Cash and cash equivalents at 1st January	1,098	844	844
Currency adjustment	9	2	3
Cash and cash equivalents at end of the period	1,213	692	1,098

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2011 – unaudited

	Attributable to the Company's shareholders				Non-controlling interests HK\$M	Total equity HK\$M
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M		
At 1st January 2011	166	5,336	61	5,563	921	6,484
Profit for the period	–	425	–	425	47	472
Other comprehensive income	–	–	77	77	54	131
Total comprehensive income for the period	–	425	77	502	101	603
Dividend paid	–	(274)	–	(274)	–	(274)
At 30th June 2011	166	5,487	138	5,791	1,022	6,813

	Attributable to the Company's shareholders				Non-controlling interests HK\$M	Total equity HK\$M
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M		
At 1st January 2010	166	4,980	31	5,177	964	6,141
Profit for the period	–	338	–	338	27	365
Other comprehensive income	–	–	14	14	5	19
Total comprehensive income for the period	–	338	14	352	32	384
Dividend paid	–	(249)	–	(249)	–	(249)
At 30th June 2010	166	5,069	45	5,280	996	6,276

Notes to the Consolidated Accounts

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies, methods of computation and presentation used in the preparation of the interim financial information are consistent with those described in the 2010 annual accounts except as noted in 1(b) below.

- (b) The Group has adopted the following relevant revised Hong Kong Financial Reporting Standards (“HKFRS”) and amendments effective from 1st January 2011:

HKAS 24 (Revised)	Related Party Disclosures
HKFRSs (Amendments)	Third improvements to HKFRSs

The revised HKAS 24 has changed the definition of related parties. It has had no financial impact on the Group’s accounts.

The improvements to HKFRSs 2010 consist of further amendments to existing standards, including an amendment to HKAS 34 Interim Financial Reporting. HKAS 34 (Amendment) consists of further disclosures in the interim financial reports. It has had no financial impact on the Group’s accounts.

The adoption of other amendments does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the first half of 2011.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3. MANAGEMENT OF FINANCIAL RISK FACTORS

(a) Financial risk factor

In the normal course of business the Group is exposed to financial risks attributable to interest rates, currency, credit and liquidity.

The interim consolidated 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 2010 annual accounts.

There have been no changes in the Group's financial risk management structure, policies and procedures since year end.

(b) Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

(c) Estimates of fair value of financial instruments

In 2011 there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

In 2011, there were no transfers of assets or liabilities between the levels in the hierarchy.

In 2011 there were no reclassifications of financial assets.

4. SEGMENT INFORMATION

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

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

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
Six months ended 30th June 2011								
External turnover	1,641	826	27	4,224	(4,224)	50	–	2,544
Inter-segment turnover	37	2	–	3	(3)	10	(49)	–
Total turnover	1,678	828	27	4,227	(4,227)	60	(49)	2,544
Operating profit/(loss)	236	167	(46)	427	(427)	(12)	–	345
Finance income	1	5	2	–	–	–	–	8
Finance charges	(2)	(2)	(5)	(1)	1	(3)	–	(12)
Share of after-tax results of jointly controlled companies	–	–	–	76	118	–	10	204
Profit/(loss) before taxation	235	170	(49)	502	(308)	(15)	10	545
Taxation (charge)/credit	(40)	(36)	1	(71)	71	2	–	(73)
Profit/(loss) for the period	195	134	(48)	431	(237)	(13)	10	472
Depreciation and amortisation	98	59	29	34	(34)	17	–	203
Provision for/(written back of) impairment of stock and rotatable spares	1	2	–	(1)	1	–	–	3
Six months ended 30th June 2010								
External turnover	1,418	570	3	3,389	(3,389)	36	–	2,027
Inter-segment turnover	58	2	–	2	(2)	8	(46)	22
Total turnover	1,476	572	3	3,391	(3,391)	44	(46)	2,049
Operating profit/(loss)	179	64	(32)	375	(375)	(12)	–	199
Finance income	–	3	1	–	–	–	–	4
Finance charges	(1)	(1)	(2)	(1)	1	(2)	–	(6)
Share of after-tax results of jointly controlled companies	–	–	–	59	108	–	21	188
Profit/(loss) before taxation	178	66	(33)	433	(266)	(14)	21	385
Taxation (charge)/credit	(27)	4	1	(62)	62	2	–	(20)
Profit/(loss) for the period	151	70	(32)	371	(204)	(12)	21	365
Depreciation and amortisation	92	58	22	31	(31)	14	–	186
Provision for impairment of stock and rotatable spares	–	1	–	–	–	–	–	1

4. SEGMENT INFORMATION (continued)

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
<i>Year ended 31st December 2010</i>								
External turnover	2,966	1,177	28	7,286	(7,286)	95	–	4,266
Inter-segment turnover	77	5	–	2	(2)	20	(102)	–
Total turnover	3,043	1,182	28	7,288	(7,288)	115	(102)	4,266
Operating profit/(loss)	399	89	(63)	854	(854)	(28)	–	397
Finance income	–	7	2	–	–	–	(1)	8
Finance charges	(3)	(3)	(7)	(3)	3	(4)	1	(16)
Share of after-tax results of jointly controlled companies	–	–	–	132	248	–	27	407
Profit/(loss) before taxation	396	93	(68)	983	(603)	(32)	27	796
Taxation (charge)/credit	(69)	5	2	(139)	139	(6)	(5)	(73)
Profit/(loss) for the year	327	98	(66)	844	(464)	(38)	22	723
Depreciation and amortisation	181	115	55	62	(62)	30	–	381
Reversal of provision for impairment of stock	–	–	–	(1)	1	–	–	–

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
<i>At 30th June 2011</i>								
Total segment assets	4,284	2,784	1,382	3,020	(3,020)	377	(344)	8,483
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	32	176	65	99	(99)	4	–	277
Total segment liabilities	1,023	631	1,069	1,547	(1,547)	369	(321)	2,771
<i>At 31st December 2010</i>								
Total segment assets	4,204	2,549	1,300	2,678	(2,678)	373	(184)	8,242
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	60	130	143	195	(195)	29	–	362
Total segment liabilities	1,071	634	938	1,186	(1,186)	370	(160)	2,853

4. SEGMENT INFORMATION (continued)

	30th June 2011 HK\$M	31st December 2010 HK\$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	8,483	8,242
Unallocated: investment in jointly controlled companies	1,070	1,064
Unallocated: intangible assets – goodwill	31	31
Total assets	9,584	9,337

Reportable segments' liabilities are equal to total liabilities.

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

5. NET FINANCE CHARGES

	Six months ended 30th June		Year ended 31st December
	2011 HK\$M	2010 HK\$M	2010 HK\$M
Finance income:			
Short-term deposits and bank balances	8	4	8
Finance charges:			
Bank loans	(12)	(6)	(16)
	(4)	(2)	(8)

6. TAXATION

	Six months ended 30th June		Year ended 31st December
	2011 HK\$M	2010 HK\$M	2010 HK\$M
Current taxation:			
Hong Kong profits tax	25	27	65
Overseas taxation	44	12	8
Under/(over)-provisions in prior years	27	(11)	(8)
	96	28	65
Deferred taxation:			
Increase in deferred tax assets	(3)	(9)	–
(Decrease)/increase in deferred tax liabilities	(20)	1	8
	73	20	73

6. TAXATION (continued)

Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of jointly controlled companies' tax charges for the six months ended 30th June 2011 of HK\$39 million (30th June 2010: HK\$30 million; year ended 31st December 2010: HK\$70 million) is included in the share of after-tax results of jointly controlled companies shown in the consolidated income statement.

7. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2011 of HK\$425 million (30th June 2010: HK\$338 million; 31st December 2010: HK\$701 million) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2010: 166,324,850; 31st December 2010: 166,324,850).

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

	Property, plant and equipment HK\$M	Leasehold land and land use rights HK\$M
Net book value:		
At 1st January 2011	4,615	312
Translation differences	110	10
Additions and transfers	202	52
Disposals	(4)	–
Depreciation, amortisation and impairment	(183)	(5)
At 30th June 2011	4,740	369

9. INTANGIBLE ASSETS

	Goodwill HK\$M	Technical licences HK\$M	Others HK\$M	Total HK\$M
Net book value:				
At 1st January 2011	31	521	18	570
Translation differences	–	(2)	–	(2)
Additions and transfers	–	–	23	23
Amortisation	–	(13)	(2)	(15)
At 30th June 2011	31	506	39	576

10. JOINTLY CONTROLLED COMPANIES

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

	HAESL			Others			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2011 HK\$M	2010 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2010 HK\$M
Turnover	1,902	1,526	3,280	192	156	335	2,094	1,682	3,615
Operating expenses	(1,710)	(1,357)	(2,896)	(172)	(132)	(298)	(1,882)	(1,489)	(3,194)
Operating profit	192	169	384	20	24	37	212	193	421
Net finance charges	-	(1)	(1)	(3)	(1)	(3)	(3)	(2)	(4)
Share of after-tax results of jointly controlled companies	34	27	60	-	-	-	34	27	60
Profit before taxation	226	195	443	17	23	34	243	218	477
Taxation	(32)	(28)	(63)	(7)	(2)	(7)	(39)	(30)	(70)
Profit for the period	194	167	380	10	21	27	204	188	407
Dividends paid and/or declared	199	172	297	9	18	45	208	190	342
Net assets employed:									
Non-current assets	572	501	537	369	326	356	941	827	893
Current assets	889	599	765	228	228	225	1,117	827	990
	1,461	1,100	1,302	597	554	581	2,058	1,654	1,883
Current liabilities	(525)	(280)	(405)	(220)	(245)	(285)	(745)	(525)	(690)
Non-current liabilities	(171)	(138)	(129)	(72)	-	-	(243)	(138)	(129)
	765	682	768	305	309	296	1,070	991	1,064
Financed by:									
Shareholders' equity	765	682	768	305	309	296	1,070	991	1,064

11. RETIREMENT BENEFITS

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

	Local Scheme HK\$M	Expatriate Scheme HK\$M	Total HK\$M
At 1st January 2011	246	55	301
Increase due to:			
Total (expense charged)/income credited	(9)	1	(8)
Contributions paid	16	-	16
At 30th June 2011	253	56	309

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets	
	30th June 2011 HK\$M	31st December 2010 HK\$M
Forward foreign exchange contracts:		
Cash flow hedges	7	8
Less: non-current portion		
Forward foreign exchange contracts:		
Cash flow hedges	1	1
Current portion	6	7

The notional principal amounts of the outstanding forward foreign exchange contracts at 30th June 2011 were HK\$205 million (31st December 2010: HK\$212 million).

13. TRADE AND OTHER RECEIVABLES

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

	30th June 2011 HK\$M	31st December 2010 HK\$M
Trade receivables	394	390
Amounts due from jointly controlled companies	41	52
Amounts due from related parties	141	101
Other receivables and prepayments	171	197
	747	740
The ageing analysis of trade receivables is as follows:		
Current	169	166
Up to 3 months overdue	135	132
3 to 6 months overdue	12	15
Over 6 months overdue	78	77
	394	390

The above ageing analysis includes the receivables due from OASIS Hong Kong Airlines Limited arising from services performed by the Group. OASIS Hong Kong Airlines Limited and OASIS Growth and Income Investments Limited entered into provisional liquidation on 11th June 2008. The Company claimed that it had a lien as security for those receivables. In accordance with a consent summons filed by the Company jointly with the provisional liquidator of the Oasis companies, an amount of HK\$78 million out of the proceeds of sales of the Oasis aircraft was deposited in a separate bank account pending determination of the Company's claim. In February 2011, the Court of First Instance in Hong Kong decided that the Company did not have a lien. The Company has filed an appeal in respect of the decision and continues to consider all options in resolving these issues.

14. TRADE AND OTHER PAYABLES

	30th June 2011 HK\$M	31st December 2010 HK\$M
Trade payables	68	71
Amounts due to jointly controlled companies	2	3
Amounts due to related parties	50	17
Other payables and accruals	843	881
	963	972
The ageing analysis of trade payables is as follows:		
Current	59	67
Up to 3 months overdue	8	4
3 to 6 months overdue	1	–
	68	71

15. SHARE CAPITAL

During the period, no purchase, sale or redemption of the Company's shares has been effected on the Hong Kong Stock Exchange. At 30th June 2011, 166,324,850 shares were in issue (31st December 2010: 166,324,850 shares).

16. RESERVES

	Revenue reserve HK\$M	Capital redemption reserve HK\$M	Exchange translation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2011	5,336	19	38	4	5,397
Total comprehensive income for the period	425	–	77	–	502
Previous year's final dividend paid	(274)	–	–	–	(274)
At 30th June 2011	5,487	19	115	4	5,625

During the period, a review of functional currencies has been performed. As a result of the review, the functional currency of two of the Group's subsidiary companies in Mainland China has changed from the US dollar to Renminbi. The resulting foreign exchange translation differences have been recorded in the exchange translation reserve.

17. CAPITAL COMMITMENTS

	30th June 2011 HK\$M	31st December 2010 HK\$M
Contracted but not provided for in the financial statements	259	303
Authorised by Directors but not contracted for	577	631
	836	934

18. FINANCIAL GUARANTEES

The Group has guaranteed loans of jointly controlled companies. At 30th June 2011, the face values of liabilities guaranteed were HK\$114 million (31st December 2010: nil).

19. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

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

Note	Jointly controlled companies			Immediate holding company			Other related parties			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2011 HK\$M	2010 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2010 HK\$M
Revenue from provision of services:												
Cathay Pacific Airways Limited Group	a	-	-	-	-	-	1,113	831	1,818	1,113	831	1,818
Other revenue	b	43	27	66	-	-	-	-	-	43	27	66
		43	27	66	-	-	1,113	831	1,818	1,156	858	1,884
Purchases:												
Costs payable to John Swire & Sons (H.K.) Limited under services agreement												
- Service fees payable during the period	a	-	-	-	-	-	14	10	19	14	10	19
- Expenses reimbursed at cost	a	-	-	-	-	-	30	22	41	30	22	41
Subtotal	a	-	-	-	-	-	44	32	60	44	32	60
- Share of administrative services		-	-	-	-	-	1	1	3	1	1	3
Total		-	-	-	-	-	45	33	63	45	33	63
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		-	-	-	-	-	2	2	4	2	2	4
Risk management service		-	-	-	1	-	5	-	-	1	-	5
Purchases of spares and services from Cathay Pacific Airways Limited Group		-	-	-	-	-	12	6	20	12	6	20
Other purchases	c	3	3	18	-	-	10	8	10	13	11	28
		3	3	18	1	-	69	49	97	73	52	120

Notes:

- These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.
- Other revenue from jointly controlled companies mainly came from the provision to HAESL of engine component repairs and facilities rental on a commercial arm's length basis and of certain administrative services charged at cost.
- Purchases from jointly controlled companies comprised mainly aircraft component overhaul charges by HAESL.
- Amounts due from and due to jointly controlled companies and other related parties at 30th June 2011 are disclosed in note 13 and note 14 to the accounts.

Information Provided in Accordance with the Listing Rules

CORPORATE GOVERNANCE

The Company has complied with all the code provisions and has met most of the recommended best practices set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the accounting period covered by the Interim Report.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“the Model Code”) contained in Appendix 10 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 2011 interim results have been reviewed by the Audit Committee of the Company.

DIRECTORS’ PARTICULARS

Change in the particulars of the Directors is set out as follows:

1. A.K.W. Tang was appointed as an Executive Director of Swire Pacific Limited with effect from 1st August 2011.

DIRECTORS’ INTERESTS

At 30th June 2011, the register maintained under Section 352 of the Securities and Futures Ordinance (“SFO”) showed that Directors held the following interests in the shares of Hong Kong Aircraft Engineering Company Limited and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited and Swire Pacific Limited:

Hong Kong Aircraft Engineering Company Limited	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	5,223,811	5,223,811	3.14	1
D.C.L. Tong	20,000	–	–	20,000	0.01	

John Swire & Sons Limited	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
Ordinary Shares of £1						
M.B. Swire	3,140,523	–	19,222,920	22,363,443	22.36	2
8% Cum. Preference Shares of £1						
M.B. Swire	846,576	–	5,655,441	6,501,917	21.67	2

Information Provided in Accordance with the Listing Rules

Swire Pacific Limited	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
'A' shares						
P.A. Johansen	31,500	–	–	31,500	0.0035	
C.D. Pratt	51,000	–	–	51,000	0.0056	
M.B. Swire	58,791	–	–	58,791	0.0065	2
'B' shares						
P.A. Johansen	200,000	–	–	200,000	0.0067	
C.D. Pratt	100,000	–	–	100,000	0.0033	
M.B. Swire	2,241,483	–	3,938,554	6,180,037	0.2063	2

Notes:

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

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER INTERESTS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 30th June 2011 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

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

Notes:

At 30th June 2011,

- Swire Pacific Limited was interested in 124,723,637 shares of the Company as the beneficial owner.
- John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 124,723,637 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's interests in shares of Swire Pacific Limited representing approximately 40.95% of the issued share capital and approximately 57.74% of the voting rights.

Financial Calendar and Information for Investors

FINANCIAL CALENDAR 2011

Interim Report sent to shareholders	22nd August 2011
Shares traded ex-dividend	31st August 2011
Register of Members closed	2nd September 2011
Interim dividend payable	20th September 2011
Annual results announcement	March 2012
Annual General Meeting	May 2012

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