

## Notes to the Accounts

### 1. PRINCIPAL ACTIVITIES

The Hong Kong Aircraft Engineering Company Limited Group is primarily engaged in the business of commercial aircraft overhaul and maintenance in Hong Kong. The principal activities of the Group's jointly controlled companies are set out in note 16.

### 2. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

#### *(a) Basis of preparation*

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

#### *(b) Basis of consolidation*

The consolidated accounts incorporate the accounts of Hong Kong Aircraft Engineering Company Limited and its subsidiary company made up to 31st December.

The results of the subsidiary company are included in the consolidated profit and loss account and the minority interest therein is deducted from the consolidated profit after taxation.

Goodwill arising on consolidation, representing the excess of cost of acquisition of subsidiary and jointly controlled companies over the Company's share of separable net assets at the date of acquisition, is eliminated against revenue reserves in the year in which it arises.

#### *(c) Joint ventures/jointly controlled companies*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity of the entity.

The consolidated profit and loss account includes the Group's share of results of jointly controlled companies. In the consolidated balance sheet, the investment in jointly controlled companies represents the Group's share of net assets. In the Company balance sheet, investments in jointly controlled companies are stated at cost less provision for permanent diminution in value.

#### *(d) Foreign currencies*

Foreign currency denominated monetary assets and liabilities and the balance sheets, as well as the Group's share of results, of foreign jointly controlled companies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are translated at the market exchange rates ruling at the transaction dates. Exchange differences are reflected in the profit and loss account except for unrealised differences on net investments in foreign jointly controlled companies which are taken directly to revenue reserves.

#### *(e) Assets under operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases.

Payments made and due under operating lease agreements are aggregated and charged to operating profit evenly over the periods of the respective leases.

*(f) Fixed assets and depreciation*

Fixed assets are carried at cost less depreciation.

Rates of depreciation are calculated to write off the cost of fixed assets over the useful lives of the assets.

Any land premium payable on acquisition of leasehold land is depreciated from the date of occupation over the remaining lease period. All buildings are depreciated over 40 years and facilities over 20 years from the date of occupation of the new facilities. Plant and buildings under construction are not depreciated.

The depreciation rates in use for other assets are as follows:

Equipment, plant and machinery	10% to 33%
Motor vehicles	20%

The gain or loss on disposal of a fixed asset represents the difference between the net sales proceeds and the carrying amount of the asset, and is recognised in the profit and loss account.

*(g) Stocks and work in progress*

Stocks and work in progress are stated at the lower of cost, calculated on a weighted average basis, and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

*(h) Cash and cash equivalents and net liquid funds*

Net liquid funds comprise cash at bank and in hand and short-term debt security investments.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions and short-term liquid investments which were within three months of maturity when acquired.

*(i) Deferred taxation*

Provision is made for deferred taxation at current rates of taxation using the liability method for all material timing differences except where it is considered that no liability or asset will arise in the foreseeable future.

*(j) Turnover and revenue recognition*

Turnover is the aggregate of amounts invoiced to customers. Invoices are raised either on completion or on stage of completion depending on the terms of individual contracts. For incomplete contract work, revenue recognised represents cost of work incurred which is valued on the same basis as work in progress. Total revenue recognised for the completed contract is equal to the aggregate of amounts invoiced for the contract. Finance income is recognised on an accruals basis. Dividend income is recognised when the right to receive payment is established.

*(k) Retirement benefits*

The Company offers retirement benefit schemes including the Mandatory Provident Fund (MPF) for its employees. Schemes selected by most employees are of a defined benefit nature. These defined benefit schemes as described in note 26, which are held under trust arrangements, are actuarially valued as required on a regular basis using a prospective actuarial valuation method. Accordingly the profit and loss account is charged each year with actuarially determined contributions based on these valuations.

*(l) Related parties*

Related parties are individuals and companies, including subsidiaries and jointly controlled companies, where the individual, company, or group has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions.

*(m) Management of currency exposure and credit risks*

The Group's income and expenditure streams are mainly denominated in Hong Kong and United States Dollars. Forward foreign exchange contracts are used as required to manage risk associated with movements in exchange rates. These contracts are all for hedging purposes and are only contracted with financial institutions of high repute in compliance with internal guidelines which are reviewed periodically.

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

**3. Staff remuneration**

Total staff remuneration for 2000 was HK\$992 million (1999 : HK\$1,187 million). The five highest paid employees included three (1999 : four) directors whose remuneration is shown in note 4. The remuneration of the other two (1999 : one) highest paid employees comprises:

	<b>2000</b>	1999
	<b>HK\$000</b>	HK\$000
Pension scheme contributions	–	192
Salaries, allowances and benefits in kind	<b>4,138</b>	2,238
	<b>4,138</b>	2,430

**4. Directors' remuneration**

	<b>2000</b>	1999
	<b>HK\$000</b>	HK\$000
Fees	<b>116</b>	116
Pension scheme contributions	<b>315</b>	1,000
Salaries, allowances and benefits in kind	<b>14,959</b>	14,782
	<b>15,390</b>	15,898

	Number of directors	
Distribution of Directors' remuneration:		
HK\$0.0M–HK\$1.0M	<b>11</b>	12
Over HK\$1.0M–HK\$1.5M	<b>1</b>	1
Over HK\$1.5M–HK\$2.0M	<b>1</b>	0
Over HK\$2.0M–HK\$2.5M	<b>0</b>	0
Over HK\$2.5M–HK\$3.0M	<b>1</b>	2
Over HK\$3.0M–HK\$3.5M	<b>1</b>	0
Over HK\$3.5M–HK\$4.0M	<b>0</b>	1
Over HK\$4.0M–HK\$4.5M	<b>1</b>	1
	<b>16</b>	17

Directors' fees paid to the independent non-executive Directors during the year totalled HK\$116,000 (1999 : HK\$116,000); they received no other emoluments from the Company or its subsidiary company.

**5. Company restructuring costs**

Company restructuring costs in 1999 represented staff retrenchment costs incurred in connection with a reorganisation of the Company's operations.

**6. Profit on sale of staff housing**

In 2000 the Company disposed of 11 residential units at Twin Bay Villas, Clearwater Bay Road, Sai Kung, New Territories. These properties were originally acquired in 1970 for the accommodation of expatriate staff. One unit remained unsold at the end of the year.

**7. Profit on sale of shares in jointly controlled companies**

Net profits of HK\$25.3 million and HK\$21.1 million respectively arose from the sales of a 5% shareholding in HAESL to SIA Engineering Company Limited and of the Company's entire shareholding in Bridgestone Aircraft Tire Company (Asia) Limited (BATASIA) to Bridgestone Corporation.

## 8. Net finance income

	<b>2000</b>	1999
	<b>HK\$000</b>	HK\$000
Finance income	<b>33,806</b>	35,031
Interest on bank loans and overdrafts	<b>(974)</b>	(17)
Interest on long term loan not wholly repayable within five years	<b>(9,646)</b>	(9,866)
	<b>23,186</b>	25,148

## 9. Taxation

	Note	<b>2000</b>	1999
		<b>HK\$000</b>	HK\$000
<i>The taxation charge comprises:</i>			
The Company and its subsidiary company:			
Hong Kong profits tax:			
Hong Kong profits tax rebate		–	1,202
Deferred tax	17(d)	<b>5,302</b>	(2,312)
Share of taxation attributable to jointly controlled companies		<b>(29,379)</b>	(10,441)
		<b>(24,077)</b>	(11,551)

The tax credit is due to the partial release of a provision for deferred tax liability on prior year profits.

Hong Kong profits tax is calculated at 16% (1999 : 16%) on estimated assessable profits. Overseas taxation is calculated at tax rates prevailing in the respective jurisdictions.

Provision has been made for all significant deferred taxation liabilities.

## 10. Profit attributable to shareholders

Of the profit attributable to shareholders, HK\$297,052,000 (1999 : HK\$11,517,000) is dealt with in the accounts of the Company.

## 11. Dividends

	<b>2000</b>	1999
	<b>HK\$000</b>	HK\$000
Interim paid on 25th September 2000 of HK\$0.23 per ordinary share (1999 : HK\$0.14)	<b>42,254</b>	25,913
Final proposed of HK\$0.38 per ordinary share (1999 : HK\$0.30)	<b>63,454</b>	55,527
	<b>105,708</b>	81,440

## 12. Surplus/(deficit) retained for the year

	<b>2000</b>	1999
	<b>HK\$000</b>	HK\$000
<i>Surplus/(deficit) retained for the year attributed by:</i>		
The Company	<b>191,344</b>	(69,923)
Subsidiary company	<b>416</b>	(754)
Jointly controlled companies	<b>102,907</b>	48,677
	<b>294,667</b>	(22,000)

## 13. Earnings per share

Earnings per share are calculated by reference to the profit attributable to shareholders of HK\$400,375,000 (1999 : HK\$59,440,000) and to the weighted average of 181,150,644 (1999 : 185,089,750) ordinary shares in issue.

## 14. Fixed assets

	<i>Cost</i>				<i>Depreciation</i>		<i>Net book value at 31st December</i>			
	Balance at 31st December 1999 HK\$000	Additions and transfers HK\$000	Disposals HK\$000	Balance at 31st December 2000 HK\$000	Balance at 31st December 1999 HK\$000	Charge for 2000 HK\$000	Disposals HK\$000	Balance at 31st December 2000 HK\$000	2000 HK\$000	1999 HK\$000
<i>Held by Group and Company:</i>										
Land held in Hong Kong										
– on medium term lease	21,021	–	–	21,021	644	429	–	1,073	<b>19,948</b>	20,377
Buildings	1,077,442	–	(11,065)	1,066,377	40,620	26,156	(210)	66,566	<b>999,811</b>	1,036,822
Plant, machinery and tools	883,089	50,503	(2,818)	930,774	242,796	57,796	(2,438)	298,154	<b>632,620</b>	640,293
Motor vehicles	92,723	19,445	(2,388)	109,780	62,505	12,535	(2,388)	72,652	<b>37,128</b>	30,218
Equipment and furniture	77,689	2,540	(10,942)	69,287	57,267	8,711	(10,663)	55,315	<b>13,972</b>	20,422
Plant and buildings under construction	24,403	(19,895)	–	4,508	–	–	–	–	<b>4,508</b>	24,403
Total held by Group and Company	2,176,367	52,593	(27,213)	2,201,747	403,832	105,627	(15,699)	493,760	<b>1,707,987</b>	1,772,535

## 15. Subsidiary company

	<b>2000</b>	1999
	<b>HK\$000</b>	HK\$000
Shares at cost	<b>300</b>	300

The Company holds 60% of the 500,000 ordinary shares of HK\$1.00 each which have been issued by its subsidiary company, South China Aero Technology Limited (SCAT) and fully paid up. South China Aero Technology Limited is an unlisted company incorporated in Hong Kong engaged in trading of aviation products. Its operations are carried out principally in Hong Kong.

**16. Jointly controlled companies**

	Group		Company	
	2000 HK\$000	1999 HK\$000	2000 HK\$000	1999 HK\$000
Shares at cost – Unlisted	<b>205,593</b>	169,233	<b>205,593</b>	169,233
Attributable post-acquisition profit	<b>225,742</b>	122,835	–	–
	<b>431,335</b>	292,068	<b>205,593</b>	169,233
Share of goodwill eliminated	<b>(30,436)</b>	(4,495)		
Share of net assets	<b>400,899</b>	287,573		
Loans due from jointly controlled companies	<b>221,225</b>	235,136	<b>221,225</b>	235,136
Loans due to jointly controlled companies	<b>(1,150)</b>	(1,150)	<b>(1,150)</b>	(1,150)
	<b>620,974</b>	521,559	<b>425,668</b>	403,219
Dividends received and receivable from jointly controlled companies			<b>7,376</b>	11,961

Loans due from jointly controlled companies amounting to HK\$189 million (1999 : HK\$203 million) are subordinated to the repayment of the bank loans of a jointly controlled company.

At 31st December 2000, the financial results of material jointly controlled companies are as follows:

	HAESL		TAECO	
	2000 HK\$000	1999 HK\$000	2000 HK\$000	1999 HK\$000
Turnover	<b>2,503,312</b>	1,431,699	<b>596,428</b>	440,786
Operating profit	<b>238,870</b>	110,879	<b>167,861</b>	93,086
Net finance charges	<b>(60,189)</b>	(55,353)	<b>(9,024)</b>	(11,369)
Share of results of associates	–	–	<b>429</b>	(995)
Profit before taxation	<b>178,681</b>	55,526	<b>159,266</b>	80,722
Taxation	<b>(47,178)</b>	(16,894)	<b>(12,152)</b>	–
Profit attributable to shareholders	<b>131,503</b>	38,632	<b>147,114</b>	80,722

Hong Kong Aircraft Engineering Company Limited Annual Report 2000

Net assets employed:				
Long-term assets	<b>782,023</b>	797,345	<b>722,320</b>	745,759
Current assets	<b>884,977</b>	744,609	<b>137,185</b>	160,254
	<b>1,667,000</b>	1,541,954	<b>859,505</b>	906,013
Less: current liabilities	<b>711,175</b>	666,359	<b>154,220</b>	187,120
<b>Net assets</b>	<b>955,825</b>	875,595	<b>705,285</b>	718,893
Financed by:				
Shareholders' funds and loans	<b>698,753</b>	553,201	<b>650,689</b>	503,237
Long-term liabilities	<b>257,072</b>	322,394	<b>54,596</b>	215,656
	<b>955,825</b>	875,595	<b>705,285</b>	718,893
Group's weighted average % shareholding in the year				
	<b>46%</b>	50%	<b>44%</b>	42%

In March 2000 the Company disposed of a 5% shareholding in HAESL and its entire shareholding in BATASIA. The Company's shareholding in HAESL after sale of the above stake is 45%. On 19th June 2000 the Company completed the purchase of a further 3.64% interest in TAECO, thereby increasing the Company's stake to 45.46%.

The jointly controlled companies, none of which are listed, are detailed below:

	Place of incorporation and operation	Owned directly	Owned by jointly controlled companies	Attributable to the Group
BFGoodrich Aerospace Asia-Pacific Limited	Hong Kong	49%	–	49%
GE Engine Services (Xiamen) Company Limited	Xiamen	–	20%	9%
Honeywell TAECO Aerospace (Xiamen) Company Limited (formerly named AlliedSignal TAECO Aerospace (Xiamen) Company Limited)	Xiamen	25%	10%	30%
Hong Kong Aero Engine Services Limited	Hong Kong	45%	–	45%
Kai Tak Refuellers Company Limited	Hong Kong	50%	–	50%
Shandong TAECO Aircraft Engineering Company Limited	Shandong	20%	10%	25%
Singapore Aero Engine Services Pte. Limited	Singapore	–	20%	9%
Taikoo (Xiamen) Aircraft Engineering Company Limited	Xiamen	45%	–	45%
TRW TAECO Aeronautical Systems (Xiamen) Company Limited (formerly named Lucas TAECO Aerospace (Xiamen) Company Limited)	Xiamen	–	35%	16%

BFGoodrich Aerospace Asia-Pacific Limited (BFGAAP) undertakes carbon brake machining and overhauls wheel hubs.

GE Engine Services (Xiamen) Company Limited will provide aircraft engine overhaul services and start operations around mid 2001.

Honeywell TAECO Aerospace (Xiamen) Company Limited provides repairs to aircraft hydraulic, pneumatic, avionic components and other aviation equipment.

Hong Kong Aero Engine Services Limited (HAESL) provides commercial aero engine overhaul services.

Kai Tak Refuellers Company Limited, which provided aircraft refuelling services at Kai Tak airport, has ceased operations.

Shandong TAECO Aircraft Engineering Company Limited provides heavy maintenance services for B737 aircraft.

Singapore Aero Engine Services Pte. Limited will provide Trent engine overhaul services and will be operational in the first half of 2002.

Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO) operates two double-bay hangars for aircraft heavy maintenance. The Company has agreed to acquire a further 4.09% interest in TAECO. This transaction is expected to be completed in April 2001.

TRW TAECO Aeronautical Systems (Xiamen) Company Limited provides repairs to aircraft fuel control, flight control and electrical components.

## **17. Deferred items**

### *(a) Staff loans*

The staff loans are secured home purchase loans. The amount expected to be settled next year is included under debtors and prepayments in current assets.

### *(b) Promissory note*

The promissory note from a third party, which is irrevocable and interest-free, represents the balance of an instalment payment receivable from the sale of aircraft spare parts. The current portion of the promissory note is included under debtors and prepayments in current assets.

### *(c) Interest receivable*

The loan due from HAESL, which is included in investment in jointly controlled companies in note 16, is interest bearing and is expected to be received after 31st December 2001.

Hong Kong Aircraft Engineering Company Limited Annual Report 2000

	Group and Company			
	2000	1999		
	HK\$000	HK\$000	HK\$000	HK\$000
<i>(d) Deferred taxation</i>				
At 1st January		<b>51,609</b>		49,297
Transfer from/(to) profit and loss account				
Current year charge	<b>1,642</b>		46,908	
Offset of tax loss	<b>(6,944)</b>	<b>(5,302)</b>	(44,596)	2,312
At 31st December		<b>46,307</b>		51,609
Provided in the accounts in respect of:				
Accelerated depreciation allowances		<b>147,379</b>		146,495
Offset of tax loss		<b>(97,792)</b>		(90,848)
Other timing differences		<b>(3,280)</b>		(4,038)
		<b>46,307</b>		51,609

Provision has been made for all significant deferred taxation liabilities.

### 18. Stocks and work in progress

Stocks and work in progress are stated at the lower of cost, calculated on a weighted average basis, and net realisable value. The carrying amount of stocks and work in progress at year end carried at net realisable value is HK\$52 million (1999 : HK\$54 million) and HK\$40 million (1999 : HK\$14 million) respectively. The remaining balance is carried at cost.

### 19. Debtors and creditors

As at 31st December 2000, 82% of debtors (99% as at 31st December 1999) and 99% of creditors (84% as at 31st December 1999) were aged under six months.

### 20. Share capital

	Company	
	2000	1999
	HK\$000	HK\$000
<i>Authorised:</i>		
210,000,000 ordinary shares of HK\$1.00 each	<b>210,000</b>	210,000
<i>Issued and fully paid:</i>		
	No. of shares	HK\$000
Ordinary shares of HK\$1.00 each		
At 31st December 1998 and 1999	185,089,750	185,090
Shares repurchased and cancelled	<b>(18,106,300)</b>	<b>(18,106)</b>
At 31st December 2000	<b>166,983,450</b>	<b>166,984</b>

During the year under review, the Company repurchased 2,106,300 of its own shares on the Hong Kong Stock Exchange at an aggregate consideration of HK\$28 million. Pursuant to a resolution passed at an extraordinary general meeting of the Company on 25th October 2000, the Company repurchased 16,000,000 shares off-market from certain shareholders, at a consideration of HK\$244 million.

All the shares repurchased were subsequently cancelled. An amount equal to the nominal value of the shares cancelled was transferred from the revenue reserve to the capital redemption reserve as disclosed in note 21.

## 21. Reserves

	Revenue reserve <b>HK\$000</b>	Capital redemption reserve <b>HK\$000</b>	Total <b>HK\$000</b>
<i>Group</i>			
At 31st December 1998	2,284,883	104	2,284,987
Deficit retained for the year	(22,000)	–	(22,000)
At 31st December 1999	2,262,883	104	2,262,987
Surplus retained for the year	<b>294,667</b>	–	<b>294,667</b>
Goodwill on acquisition of jointly controlled company	<b>(25,941)</b>	–	<b>(25,941)</b>
Repurchase of own shares			
– premium paid on repurchase	<b>(253,397)</b>	–	<b>(253,397)</b>
– transfer between reserves	<b>(18,106)</b>	<b>18,106</b>	–
<b>At 31st December 2000</b>	<b>2,260,106</b>	<b>18,210</b>	<b>2,278,316</b>
		<b>2000</b>	1999
		<b>HK\$000</b>	HK\$000
<i>Comprising:</i>			
Revenue reserves			
The Company		<b>2,027,051</b>	2,133,151
Subsidiary company		<b>7,313</b>	6,897
Jointly controlled companies		<b>225,742</b>	122,835
		<b>2,260,106</b>	2,262,883

Hong Kong Aircraft Engineering Company Limited Annual Report 2000

	Revenue reserve <b>HK\$000</b>	Capital redemption reserve <b>HK\$000</b>	Total <b>HK\$000</b>
<i>Company</i>			
At 31st December 1998	2,207,569	104	2,207,673
Deficit retained for the year	(69,923)	–	(69,923)
At 31st December 1999	2,137,646	104	2,137,750
Surplus retained for the year	<b>191,344</b>	–	<b>191,344</b>
Repurchase of own shares			
– premium paid on repurchase	(253,397)	–	(253,397)
– transfer between reserves	(18,106)	<b>18,106</b>	–
At 31st December 2000	<b>2,057,487</b>	<b>18,210</b>	<b>2,075,697</b>

Distributable reserves of the Company at 31st December 2000, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$2,057,487,000 (1999 : HK\$2,137,646,000).

## 22. Long term loan

	Group and Company	
	2000 <b>HK\$000</b>	1999 HK\$000
Outstanding at 1st January	<b>116,211</b>	118,788
Repayment during the year	(2,796)	(2,577)
Balance at 31st December	<b>113,415</b>	116,211
Maturity profile:		
Repayable within 1 year	<b>3,036</b>	2,796
Repayable between 1 and 2 years	<b>3,294</b>	3,036
Repayable between 2 and 5 years	<b>11,663</b>	10,747
Repayable after 5 years	<b>95,422</b>	99,632
	<b>113,415</b>	116,211
Amount due within one year included under current liabilities	(3,036)	(2,796)
	<b>110,379</b>	113,415

The loan is provided by Troon Limited, a subsidiary of Cathay Pacific Airways Limited, to the Company for the construction of storage areas for aircraft spares within the Company's facilities. The loan is unsecured and repayable over 40 semi-annual instalments from December 1998 to June 2018. It bears an interest rate of 8.35% per annum subject to review on the 10th anniversary. During the year, the interest incurred was HK\$9,646,000 (1999 : HK\$9,866,000). The loan arrangement constitutes a transaction with a related party as defined in the HK SSAP20.

**23. Notes to consolidated cash flow statement**

	<b>2000</b>	1999
	<b>HK\$000</b>	HK\$000
<i>(a) Reconciliation of operating profit to net cash inflow from operating activities</i>		
Operating profit/(loss)	<b>238,580</b>	(24,938)
Depreciation	<b>105,627</b>	105,358
(Gain)/loss on disposal of fixed assets	<b>(64,772)</b>	232
Profit on sale of shares in jointly controlled companies	<b>(46,359)</b>	–
Decrease/(increase) in promissory note	<b>7,759</b>	(11,075)
(Increase)/decrease in stocks and work in progress	<b>(67,538)</b>	31,037
(Increase)/decrease in debtors and prepayments	<b>(25,920)</b>	51,974
Increase/(decrease) in creditors and accruals	<b>42,068</b>	(132,501)
<b>Net cash inflow from operating activities</b>	<b>189,445</b>	20,087

*(b) This included the sale of fixed assets of HK\$1.3 million to BFGAAP in 1999 as described in note 27.*

	Share capital and reserves	Long-term loan	Minority interest	Total
	<b>HK\$000</b>	<b>HK\$000</b>	<b>HK\$000</b>	<b>HK\$000</b>
<i>(c) Analysis of changes in financing</i>				
At 31st December 1998	2,470,077	118,788	5,302	2,594,167
Cash outflow from financing	–	(2,577)	–	(2,577)
Minority interests' share of profit	–	–	298	298
Deficit retained for the year	(22,000)	–	–	(22,000)
Dividends paid to minority shareholders	–	–	(800)	(800)
At 31st December 1999	2,448,077	116,211	4,800	2,569,088
Cash outflow from financing	<b>(271,609)</b>	<b>(2,796)</b>	–	<b>(274,405)</b>
Minority interests' share of profit	–	–	277	277
Surplus retained for the year	<b>294,667</b>	–	–	<b>294,667</b>
Goodwill on acquisition of jointly controlled company and other non-cash movements	<b>(25,835)</b>	–	–	<b>(25,835)</b>
<b>At 31st December 2000</b>	<b>2,445,300</b>	<b>113,415</b>	<b>5,077</b>	<b>2,563,792</b>

	<b>2000</b>	1999
	<b>HK\$000</b>	HK\$000
<i>(d) Analysis of changes in cash and cash equivalents</i>		
At start of the year	<b>89,248</b>	429,265
Decrease in cash and cash equivalents	<b>(81,656)</b>	(340,017)
<b>At end of the year</b>	<b>7,592</b>	89,248

(e) Analysis of changes in net liquid funds

At start of the year	<b>102,964</b>	433,912
Decrease in net liquid funds	<b>(84,453)</b>	(330,948)
At end of the year	<b>18,511</b>	102,964

(f) Analysis of net liquid funds at end of the year

Cash and cash equivalents		
– Deposits and bank balances	<b>7,592</b>	89,248
– Deposits maturing after 3 months	<b>10,919</b>	13,716
	<b>18,511</b>	102,964

**24. Capital commitments**

	Group and Company	
	2000	1999
	HK\$000	HK\$000
Contracted for but not provided in the accounts	<b>39,180</b>	56,843
Authorised by directors but not contracted for	<b>19,067</b>	19,142

The above commitments include the acquisition of a further 4.09% shareholding in TAECO from SIA Engineering Company Limited, which is expected to be completed in April 2001.

Amount of capital commitments related to the Group's interest in jointly controlled companies and not included in the above are as follows:

Contracted for but not provided in the accounts	<b>55,761</b>	19,605
Authorised by directors but not contracted for	<b>26,298</b>	23,721

**25. Lease commitments**

	Group and Company	
	2000	1999
	HK\$000	HK\$000
At 31st December 2000, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:		
<i>Land and buildings:</i>		
Leases expiring:		
– Within 1 year	<b>55,530</b>	67,374
– After 1 year but within 5 years	<b>220,643</b>	268,359
– After 5 years	<b>685,140</b>	900,683
	<b>961,313</b>	1,236,416

As a result of the early adoption of HK SSAP14 (Revised), the disclosures of operating lease commitments (including comparatives) have been revised.

## 26. Retirement benefits

The Hong Kong Aircraft Engineering Company Local Staff Retirement Benefits Scheme provides resignation and retirement benefits to its members, who are employed locally, upon their cessation of service with the Company. The Company meets the full cost of all benefits due by the Scheme to members, who are not required to contribute to the Scheme.

Staff employed on expatriate terms are eligible to join another scheme, the Hong Kong Aircraft Engineering Company Staff Retirement Benefits Scheme. Both members and the Company contribute to the Scheme.

The two Schemes are defined benefit plans. The latest actuarial valuation was undertaken as at 1st January 2000 by Watson Wyatt, an independent firm of actuaries, using the attained age method. The valuation reported that the asset market valuation as a percentage of the present value of past service liabilities was 136% for the Local Staff Scheme and 207% for the Expatriate Staff Scheme assuming a long-term average investment return of 1% higher than the average salary escalation rate and recommended that the Company was not required to make any contributions for either Scheme in 2000. As a result, there have been no contributions into these Schemes during 2000 (1999 : HK\$95,000,000).

## 27. Related Party Transactions

The Group has a number of transactions with its related parties. All trading transactions are conducted on normal commercial terms in the ordinary and usual course of business. The aggregated transactions and balances which are material to the Group and which have not been disclosed elsewhere in the annual report are summarised below:

	Note	Jointly Controlled Companies		Other Related Parties		Total	
		2000	1999	2000	1999	2000	1999
		HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Revenue from provision of services	a	<b>154.0</b>	131.5	<b>818.9</b>	917.5	<b>972.9</b>	1,049.0
Purchase of services	b	<b>7.1</b>	32.9	<b>9.2</b>	7.1	<b>16.3</b>	40.0
Sales of assets	c	–	1.3	–	–	–	1.3
Debtors at 31st December	d			<b>92.4</b>	76.4		
Creditors at 31st December	d			<b>15.3</b>	8.1		

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 concerning the formation of HAESL. Services provided to TAECO related principally to charges at commercial rates covering the stationing of a working team of approximately 150 people 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 fleet, the Dragonair and Air Hong Kong fleets as well as logistic support and storage charges for Cathay Pacific Airways.

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

Purchases of services from other related parties comprised mainly a services fee payable to John Swire & Sons Limited of HK\$3.8 million (1999 : HK\$0.3 million) and reimbursement, at cost, of expenses incurred of HK\$5.2 million (1999 : HK\$6.6 million).

c. The fixed assets sold by the Company in 1999 were sold to BFGAAP at normal commercial value.

d. The outstanding amounts at 31st December 2000 due from/to other related parties are contained respectively in “debtors and prepayments” and “creditors and accruals” in the consolidated and company balance sheet.

With the exception of the services fee payable to John Swire & Sons Limited as described in Note b, none of the above related party transactions constitutes a disclosable connected transaction as defined in the Listing Rules.