HAECO

Hong Kong Aircraft Engineering Company Limited

annual report 2011

Stock Code: 00044

The strategic objective of HAECO is sustainable growth in shareholder value over the long term. The strategy employed in order to achieve this objective is to increase the range, depth and quality of aircraft engineering services offered by the HAECO Group and to do so while providing safe, healthy and long-term career development for its staff.

Wide Range of Services

7.4 million manhours sold in 2011

Airframe Maintenance

The HAECO Group provides airframe maintenance and repair services in Hong Kong and Mainland China. In addition to providing conventional maintenance and repair services, the HAECO Group converts passenger aircraft to freighters and completes and reconfigures aircraft cabins.

146,241 aircraft movements handled in 2011

Line Maintenance

HAECO provides line maintenance services to over 80 airlines at Hong Kong International Airport. The services comprise transit and service checks, technical log certification and aircraft release, technical defect clearance and cabin cleaning. The HAECO Group also provides line maintenance services at airports in Xiamen, Beijing, Shanghai, Chengdu, Jinan and Tianjin in Mainland China and at airports in Singapore and Bahrain.

408 engines output in 2011

Engine Overhaul

The HAECO Group provides repair and overhaul services for Rolls-Royce engines in Asia through Hong Kong Aero Engine Services Limited (“HAESL”) in Hong Kong. Taikoo Engine Services (Xiamen) Company Limited (“TEXL”) operates a GE engine overhaul facility in Xiamen, Mainland China.

7 types of aircraft managed

Inventory Technical Management and Fleet Technical Management

The HAECO Group manages component inventories for airline customers. It also provides fleet technical management, which includes the planning and control of all maintenance for a fleet of aircraft.

HK$1,016 million annual turnover

Component Overhaul

HAECO overhauls aircraft components and avionics in Hong Kong. The HAECO Group repairs and overhauls landing gear in Xiamen and thrust reversers in Jinjiang. In cooperation with original equipment manufacturers, the HAECO Group repairs and overhauls aircraft tyres, wheels and brakes in Hong Kong, Xiamen and Jinjiang.

Financial Highlights

		2011	2010	Change
Results				
Turnover	*HK$ Million*	5,171	4,266	+21.2%
Net operating profit	*HK$ Million*	525	389	+35.0%
Share of after-tax results of jointly controlled companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	*HK$ Million*	415	380	+9.2%
– Other jointly controlled companies	*HK$ Million*	20	27	-25.9%
Profit attributable to the Company's shareholders	*HK$ Million*	821	701	+17.1%
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	*HK$*	4.94	4.21	+17.1%
Interim and final dividends per share	*HK$*	2.60	2.10	+23.8%
Special dividend per share	*HK$*	3.40	–	–
Total dividends per share	*HK$*	6.00	2.10	+185.7%
Financial Position				
Net borrowings	*HK$ Million*	106	176	-39.8%
Gearing ratio	*%*	1.5	2.7	-1.2%pt
Total equity	*HK$ Million*	7,090	6,484	+9.3%
Equity attributable to the Company's shareholders per share	*HK$*	36.52	33.45	+9.2%
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	625	481	+29.9%
Net cash inflow before financing activities	*HK$ Million*	587	307	+91.2%

Note:
The average number of shares in issue is 166,324,850 in 2011 (2010: 166,324,850).
Additional financial information about the Group's jointly controlled companies is presented on pages 61 and 62.

Contents

Chairman's Letter

The HAECO Group reported an attributable profit of HK$821 million in 2011, 17% higher than the attributable profit of HK$701 million reported in 2010. Earnings per share increased from HK$4.21 to HK$4.94. Your Directors have declared a second interim dividend (in lieu of a final dividend) of HK$1.90 per share and a special dividend of HK$3.40 per share which, together with the first interim dividend of HK$0.70 per share paid on 20th September 2011, result in a total distribution for the year of HK$6.00 per share, compared to total dividends of HK$2.10 per share in 2010. The special dividend is being paid in order to return surplus cash to shareholders. The Group's gearing will remain conservative.

Demand for HAECO's airframe maintenance and line maintenance services remained strong in Hong Kong in the first half of 2011 but slowed down slightly in the second half. Over the year as a whole in Hong Kong, 9% more manhours were sold for airframe maintenance and 10% more aircraft movements were handled compared to 2010. The performance of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") improved significantly in 2011; there was a recovery in demand for its airframe maintenance services, although demand for Boeing 747 passenger to freighter conversions remained weak. Hong Kong Aero Engine Services Limited ("HAESL") and Singapore Aero Engine Services Pte. Limited ("SAESL") experienced higher than expected growth in demand for engine overhaul services and corresponding growth in profits. The joint ventures in Mainland China continued to develop technical capabilities; as expected, they made operating losses.

The Group continued to invest in both 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 for 2011 was HK$532 million. Committed capital expenditure at the end of the year was HK$555 million. During 2011, TAECO opened its sixth hangar, HAESL opened a new component repair centre and

Taikoo Engine Services (Xiamen) Company Limited ("TEXL") completed the second phase of its building expansion. The Group acquired a 49% shareholding in a line maintenance provider in Shanghai, with the aim of expanding the Group's line maintenance services in Mainland China.

The aviation industry is being affected by instability and uncertainty in the world's major economies. However, demand for HAECO's airframe and line maintenance services in Hong Kong is expected to remain strong in 2012. HAECO will seek to develop its inventory technical management and component and avionics overhaul businesses. HAESL is expected to perform well in 2012. TAECO and the joint ventures in Mainland China are expected to be adversely affected by high wage inflation, the strength of the Renminbi and increased competition.

The commitment and reliability of our professional work force are central to our success. On behalf of the shareholders, I would like to thank all staff for their hard work and continuing support.

Christopher Pratt
Chairman
Hong Kong, 13th March 2012

2011 in Review

The Group is a leader in aircraft engineering services. In 2011, the Group continued to expand its facilities and technical capabilities in Hong Kong and Mainland China and to improve and widen the range of services it can offer to customers.


HAECO
HAECO

- In March 2011, TAECO was approved by Airbus as a corporate and executive jet cabin completion centre, the first such approval to be granted in the Asia Pacific region. In October 2011, TAECO was approved by Boeing as a business jet VIP completion centre.

- In March 2011, TAECO received approval from the civil aviation authority of the European Union to do work on Boeing 777 aircraft with GE90 engines. In May 2011, TAECO received approval from the civil aviation authority of Japan to undertake work on Boeing 777 aircraft with PW4000 engines. In July 2011, TAECO received approval from the civil aviation authority of Thailand to perform maintenance work on Boeing 747-400 BCF aircraft. In September 2011, TAECO received approval from the civil aviation authority of Australia to overhaul Boeing 747-400 and 767 aircraft.

- TAECO's sixth hangar, opened in June 2011, received approvals from the civil aviation authorities of Mainland China, the European Union and Hong Kong.

- In 2011, Taikoo (Shandong) Aircraft Engineering Company Limited ("STAECO") received approvals from the United States civil aviation authority to perform maintenance work on Airbus A320 aircraft, from the European Union civil aviation authority to overhaul certain Bombardier CRJ and CL aircraft, from the civil aviation authority of Japan to undertake work on Bombardier CRJ700 aircraft and from the civil aviation authority of Mainland China to do work on Bombardier Global Express and Gulfstream G450 aircraft.

- In 2011, Taikoo Sichuan Aircraft Engineering Services Company Limited ("Taikoo Sichuan") applied to the United States civil aviation authority for approval to do maintenance work and expects to receive such approval within the second quarter of 2012. Taikoo Sichuan deferred the start of construction of its second hangar until 2012.

Airframe Maintenance

Line Maintenance

- In February 2011, TAECO received approval from the civil aviation authority of Japan to do line maintenance on Boeing 737NG and 767 freighter aircraft.

- In 2011, Singapore HAECO Pte. Limited ("SHAECO") received approvals from the civil aviation authorities of Singapore and Hong Kong to do line maintenance on Boeing 747-400 aircraft with RB211-524 engines and from the aviation authority of Singapore to do line maintenance on Airbus A320 aircraft with CFM56-5 engines. SHAECO is also capable of doing line maintenance on Airbus A330 aircraft with CF6 engines and will apply for the necessary approvals.

- In 2011, SHAECO started to provide line maintenance services to AHK Air Hong Kong Limited in Singapore and entered into a contract to provide line maintenance services for IndiGo on its Airbus A320 aircraft. IndiGo is SHAECO's first customer from India.

- In January 2012, Taikoo Sichuan received approval from the civil aviation authority of Mainland China to provide line maintenance on Boeing 737 and Airbus A330 aircraft. Taikoo Sichuan has started to provide line maintenance services for Hong Kong Airlines Limited on its Boeing 737 aircraft flying to Chengdu.

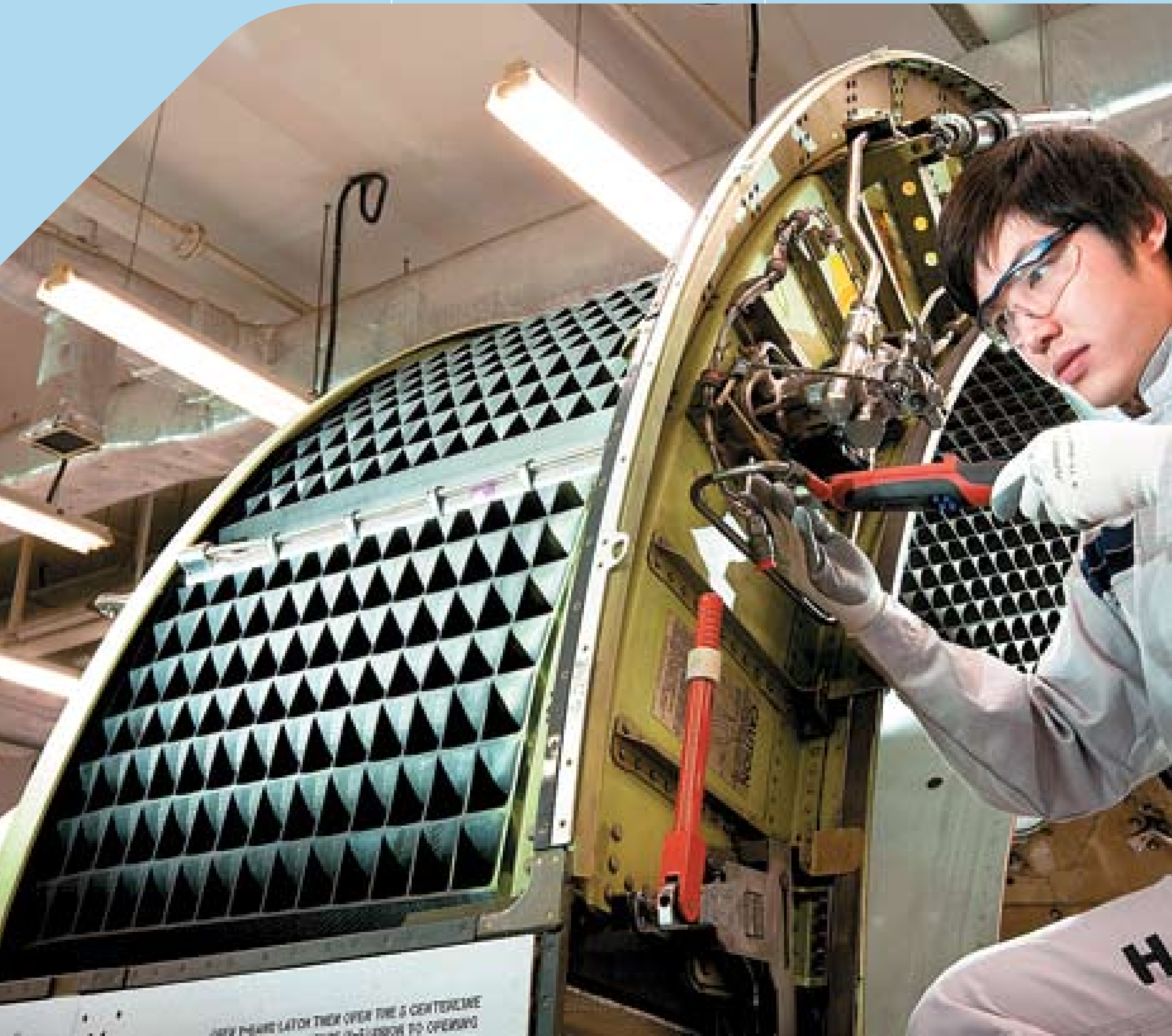
- In December 2011, the Group acquired a 49% shareholding in a line maintenance provider in Shanghai, with the aim of expanding the Group's line maintenance services in Mainland China. The company was renamed Shanghai Taikoo Aircraft Engineering Services Company Limited.

- During 2011, HAESL completed the development of five original equipment manufacturer's source controlled repair schemes for Trent 500, Trent 700 and Trent 800 turbine stub shafts and two repair schemes for Trent 500 and Trent 900 turbine ring seals.
- In June 2011, HAESL opened its Centre of Excellence, a 13,500 square metre extension to its existing component repair facility. This is a HK$389 million investment designed to cater for the rapid growth in component repair. It commenced full operation in the fourth quarter of 2011.

Engine Overhaul

• In the first half of 2011, TEXL received Part 145 approvals from the civil aviation authorities of Mainland China, the European Union and the United States to disassemble GE90 engines and completed the second phase expansion of its building. The expansion puts TEXL in a position to disassemble and reassemble GE90-110B and GE90-115B engine high pressure turbines. TEXL continues to invest in plant, equipment and tooling in order to develop its capability to overhaul these engines.

- In November 2011, HAECO received approval from the civil aviation authority of Hong Kong as a design and production organisation. HAECO is seeking approval from the civil aviation authority of Japan to overhaul Boeing 747 and 777 aircraft components.
- In 2011, Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO") made progress in developing its capability to overhaul Boeing landing gear and obtained a number of relevant approvals from civil aviation authorities and airlines. During the year TALSCO entered into contracts with a number of operators of aircraft using Boeing landing gear, including a contract with Qantas to overhaul landing gear on Boeing 747-400ERF aircraft. TALSCO will start to overhaul landing gear on Boeing 777-200 aircraft in 2012.
- In 2011, Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited ("Dunlop Taikoo") received approvals from the civil aviation authorities of Thailand and the Philippines to retread aircraft tyres made by the Dunlop company. Dunlop Taikoo also received approvals from the civil



aviation authorities of the European Union to retread tyres produced by the Bridgestone, Goodyear and Dunlop companies.

- Goodrich Asia-Pacific Limited ("GAP") extended its capability to service Goodrich components in Boeing 787-8 and 787 aircraft.
- Honeywell TAECO Aerospace (Xiamen) Company Limited ("Honeywell TAECO") has expanded its capability for repairing mechanical components.
- In 2011, Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("Taikoo Spirit") received a number of approvals from civil aviation authorities and airlines, including an approval from the civil aviation authority of Mainland China to perform certain on-wing services. Taikoo Spirit has expanded its capability for dealing with components made of composite materials.
- In 2011, Taikoo Spirit overhauled Trent 800 thrust reversers on Boeing 777 aircraft for Cathay Pacific Airways Limited ("Cathay Pacific"), CFM56-7 thrust reversers on Boeing 737NG aircraft for a number of airlines and became capable of overhauling GE90 thrust reversers on Boeing 777 aircraft.

Component Overhaul

- In October 2011, HAECO entered into a contract with Cathay Pacific to provide inventory technical management ("ITM") services for the Boeing 747-8 freighters to be delivered in the remainder of 2012. In November 2011, both parties entered into a Memorandum of Understanding in relation to the management of Cathay Pacific group's airframe rotable components. These transactions are expected to yield benefits in asset utilisation, scalability, supplier relationships, physical component repair capability development opportunities and component pool synergy, putting HAECO in a strong position to secure potential customers for ITM services in the Asia Pacific region, where strong growth is expected.

- In May 2011, STAECO launched business jet management services to capture the growing demand for business jets in Mainland China.

Inventory Technical Management and Fleet Technical Management

Review of Operations

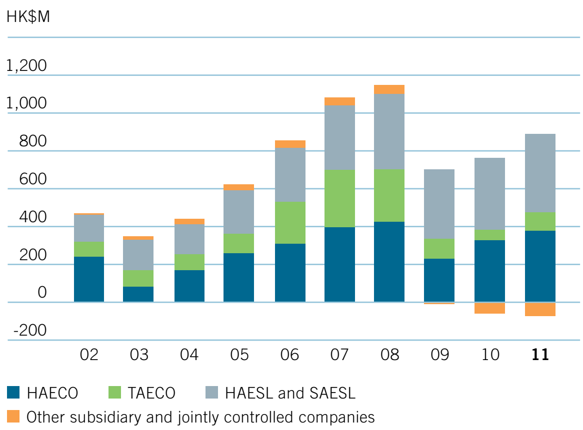
In 2011, HAECO and TAECO sold 6.42 million manhours for airframe maintenance (a 22% increase over 2010) and HAECO undertook more line maintenance in Hong Kong, the latter reflecting 10% more aircraft movements.

The profit attributable to the Company's shareholders comprises:

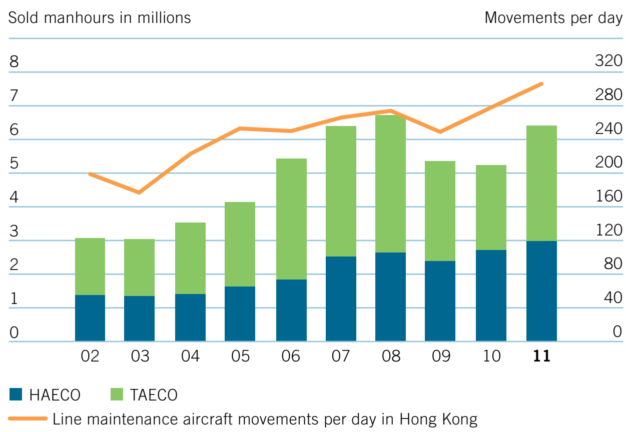
	2011 HK$M	2010 HK$M	Change
HAECO	381	327	+17%
TAECO	98	53	+85%
Share of:			
HAESL and SAESL	415	380	+9%
Other subsidiary and jointly controlled companies	(73)	(59)	-24%
	821	701	+17%

	2011	2010	Change
Airframe maintenance sold manhours (per year in millions)			
HAECO	3.00	2.74	+9%
TAECO	3.42	2.52	+36%
Line maintenance movements in Hong Kong (per day)	306	278	+10%

Attributable Profits by Company



Airframe Maintenance Sold Manhours and Line Maintenance Aircraft Movements



HAECO

HAECO's Hong Kong operations comprise airframe maintenance in its hangars, line maintenance at the passenger and cargo terminals at Hong Kong International Airport ("HKIA"), component overhaul at Tseung Kwan O, inventory technical management and fleet technical management services.

Airframe Maintenance

HAECO does scheduled maintenance checks, modifications and overhaul work on a wide variety of aircraft types. It competes on turnaround time and quality of workmanship with other maintenance, repair and overhaul facilities worldwide. Manhours sold increased from 2.74 million in 2010 to 3 million in 2011. The increase reflected strong demand for airframe maintenance against a buoyant industry background. Approximately 71% of airframe maintenance work was for airlines based outside Hong Kong.

Line Maintenance

HAECO provides technical and non-technical line maintenance services to airlines operating at HKIA. There was an increase in aircraft movements at HKIA in 2011 as the demand for cargo and passenger services grew. The average number of movements handled by HAECO was 306 per day in 2011, a 10% increase from 2010.

Component Overhaul

HAECO conducts component overhaul in 7,000 square metres of workshop space at Tseung Kwan O in Hong Kong. There was a moderate increase in manhours sold in 2011. Developments in 2011 included the extension of component repair and overhaul services to Airbus A320 and A330 and Boeing 777 aircraft and the development of commercial relationships with original equipment manufacturers in the Asia Pacific region.

Inventory Technical Management and Fleet Technical Management

During the year, HAECO provided inventory technical management for rotable spares for Airbus A300-600F, A319, A320 and A330 aircraft and Boeing 747-200F and 747-800 aircraft and fleet technical management for Airbus A319 and A320 aircraft and Boeing 747-400F and 747-200F aircraft.

HAECO employed 5,102 staff at the end of 2011, 3% more than at the end of 2010.

TAECO

TAECO's principal business is airframe maintenance, line maintenance, freighter conversions and cabin reconfigurations. TAECO opened its sixth wide-body double bay hangar at Xiamen Gaoqi International Airport in June 2011. Its hangars can accommodate 12 wide-body and five narrow-body aircraft at the same time.

TAECO's hangars were fully occupied during the first half of 2011. There was less airframe maintenance work in the second half of the year than the first, but manhours sold for the full year increased by 36% from 2010 to 3.42 million.

TAECO provides line maintenance services in Xiamen, Beijing, Tianjin and Shanghai. It handled an average of 57 aircraft movements per day in 2011, an increase of 18% from 2010.

TAECO continued to develop its cabin interior design and completion capabilities in 2011, for executive, corporate and commercial aircraft. It also provided technical training to third party customers.

TAECO's operating margin in 2011 benefited from the increase in workload, but was partly offset by the appreciation of the Renminbi and by the effect on labour costs of increased competition for skilled workers.

TAECO employed 5,240 staff at the end of 2011, 11% more than at the end of 2010.

HAESL

HAESL (45% owned) repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. The number of engines dealt with was similar to 2010, but more work was done per engine. Aircraft flew more than expected in the Asia Pacific region. The return to service of certain Cathay Pacific aircraft helped. SAESL, in which HAESL has a 20% interest, reported strong profit growth in 2011 with higher engine output.

The Group's share of the after-tax profit of HAESL, including that derived from HAESL's interest in SAESL, increased by 9% in 2011 to HK$415 million.

Other Principal Subsidiary and Jointly Controlled Companies

The net loss attributable to shareholders derived from other principal subsidiary and jointly controlled companies comprises:

	2011 HK$M	2010 HK$M	Change
TEXL	(70)	(53)	-32%
TALSCO	(8)	(19)	+58%
Other subsidiary and jointly controlled companies	5	13	-62%
	(73)	(59)	-24%

- TEXL (owned 75.01% by HAECO and 10% by TAECO) has an engine overhaul facility in Xiamen. It has a service agreement with General Electric for overhauling GE90 engines. It performs quick turn repairs, including the replacement of outlet guide vanes and shrouds, and performance restoration for GE90-110B and GE90-115B engines. TEXL did its first performance restoration in 2011. During 2011, 24 engines were inducted and repairs were completed on 18 engines, 17 of them quick turn repairs and one performance restoration. Revenue for 2011 increased significantly from 2010, in which there was only six months operation. The loss for the year mainly reflected under-utilisation of facilities. Recruitment continued and, at the end of 2011, TEXL had 118 employees.
- TALSCO (owned 50% by HAECO and 10% by TAECO) overhauls landing gear in Xiamen. TALSCO can overhaul landing gear for Boeing 737, 747, 757, 767 and 777 aircraft and is developing the capability to overhaul landing gear for Airbus A320 aircraft. TALSCO's loss was reduced in 2011 as the operating margin improved.
- SHAECO (100% owned) does line maintenance at Changi Airport in Singapore. In 2011, there was increased revenue from existing and new customers. SHAECO's loss was reduced in 2011. The loss reflected the cost of getting ready to provide line maintenance for Airbus A330 aircraft (and AHK Air Hong Kong's Boeing 747-400 aircraft) and increased training and staff costs.

- Dunlop Taikoo (owned 28% by HAECO and 9% by TAECO) sells and retreads aircraft tyres at Jinjiang in Fujian Province in Mainland China. In 2011, more new tyres and retreads were sold but the loss increased, reflecting strong competition and high material costs. Dunlop Taikoo will mitigate the effect of cost increases by diversifying its material sourcing.
- GAP (49% owned) refurbishes carbon brakes and wheel hubs at Fanling in Hong Kong. Profits decreased in 2011 due to price reductions for carbon machining.
- Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited (35% owned by TAECO) overhauls fuel control systems and pumps in Xiamen. Sales and profit increased moderately in 2011.
- Honeywell TAECO (owned 25% by HAECO and 10% by TAECO) overhauls auxiliary power units and other rotable spares. Revenues in 2011 were slightly lower than last year. Profit increased due to a lower cost of sales and a reduction in operating costs.
- STAECO (owned 30% by HAECO and 10% by TAECO) performs airframe maintenance, passenger to freighter conversions and line maintenance at Jinan in Shandong Province in Mainland China for Boeing 737 and other narrow-body aircraft. Business improved when compared to 2010 as a result of six passenger to freighter conversions and airframe maintenance on six aircraft being returned by lessees to lessors. Manhours sold and revenue increased in 2011 by 26% and 18% respectively from 2010. The profit margin was lower because of higher staff and material costs.
- Taikoo Sichuan (owned 40% by HAECO and 9% by TAECO) provides airframe maintenance and line maintenance at Chengdu in Sichuan Province in Mainland China for Airbus aircraft. It opened its first hangar in August 2010. There was a bigger loss in 2011 than in 2010, due in part to the delay in receiving approval from the civil aviation authority of the United States.
- Taikoo Spirit (owned 41.8% by HAECO and 10.76% by TAECO) repairs and overhauls composite structures at Jinjiang in Fujian Province in Mainland China. A loss was reported in 2011, its second year of operation.

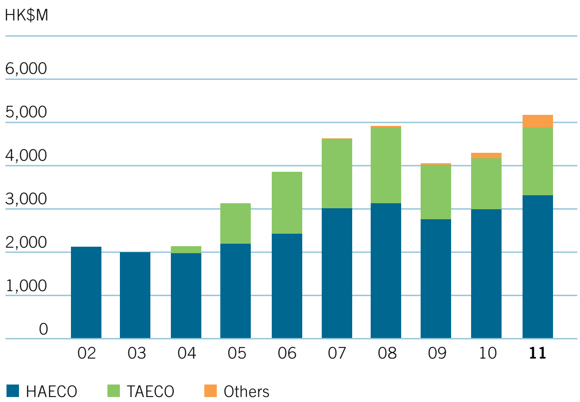
Financial Review

Turnover

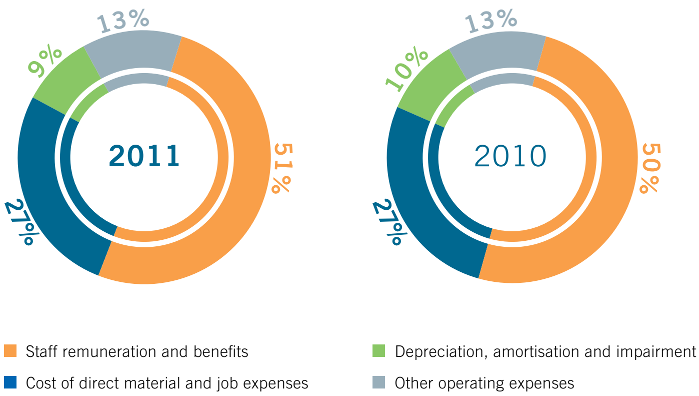
Turnover in 2011 increased by 21% to HK$5,171 million, with an 11% increase in HAECO's turnover and a 34% increase in that of TAECO.

	2011 HK$M	2010 HK$M	Change
HAECO	**3,307**	2,966	+11%
TAECO	**1,581**	1,177	+34%
Others	**283**	123	+130%
	5,171	4,266	+21%

Turnover



Operating Expenses



Operating Expenses

Operating expenses increased by 20% to HK$4,670 million in line with the growth of business.

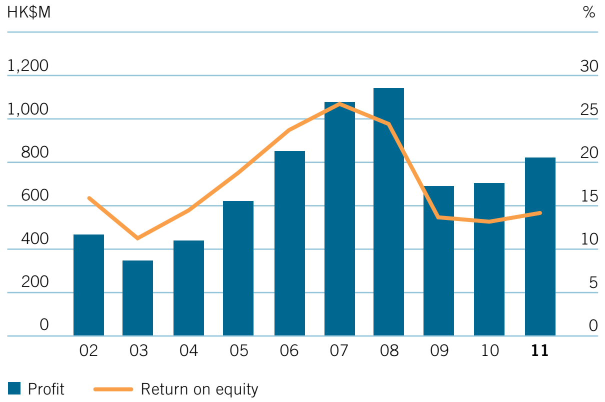
	2011 HK$M	2010 HK$M	Change
Staff remuneration and benefits	**2,366**	1,963	+21%
Cost of direct material and job expenses	**1,260**	1,048	+20%
Depreciation, amortisation and impairment	**439**	381	+15%
Other operating expenses	**605**	498	+21%
	4,670	3,890	+20%

Profit

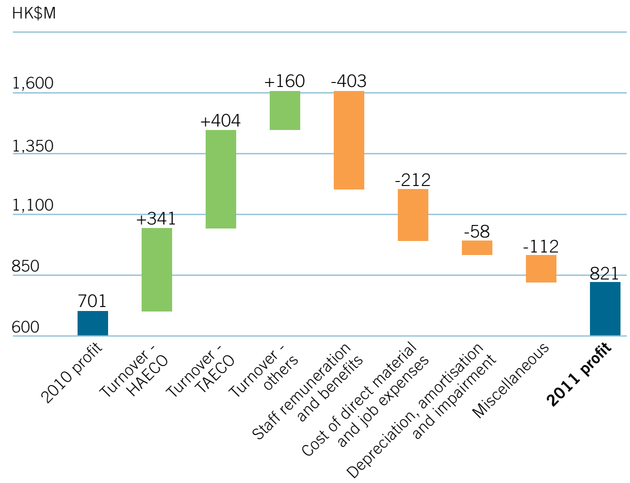
The change in profit attributable to the Company's shareholders can be analysed as follows:

	HK$M	
2010 profit	701	
Turnover		
HAECO	341	The increase principally reflects a 9% increase in airframe maintenance manhours sold and a 10% increase in line maintenance aircraft movements. The increases in maintenance reflect continued strength in the aviation industry.
TAECO	404	The increase principally reflects a 36% increase in airframe maintenance manhours sold and an 18% increase in line maintenance aircraft movements.
Others	160	The increase principally reflects more work on engines at TEXL and increased line maintenance aircraft movements at SHAECO.
Staff remuneration and benefits	(403)	The increase reflects salary increases in Hong Kong and Mainland China and higher retirement fund expenses in Hong Kong.
Cost of direct material and job expenses	(212)	The increase reflects an increase in business volume.
Depreciation, amortisation and impairment	(58)	The increase principally reflects depreciation of the new hangar at TAECO.
Other operating expenses	(107)	The increase reflects higher repair and maintenance costs incurred as a result of higher business volume.
Share of after-tax results of jointly controlled companies	28	The increase reflects better profits from HAESL and SAESL, partly offset by higher losses at the joint ventures in Mainland China.
Taxation	(11)	The increase reflects higher profits.
Other items	11	
Non-controlling interests	(33)	The increase reflects better results from TAECO.
2011 profit	**821**	

Profit Attributable to the Company's Shareholders



Movement of Profit Attributable to the Company's Shareholders



Assets

Total assets as at 31st December 2011 were HK$10,110 million. During the year, additions to fixed assets were HK$606 million. Included in this amount was HK$262 million spent on plant, machinery and tools and HK$170 million spent by HAECO on rotable and repairable spares in relation to inventory technical management.

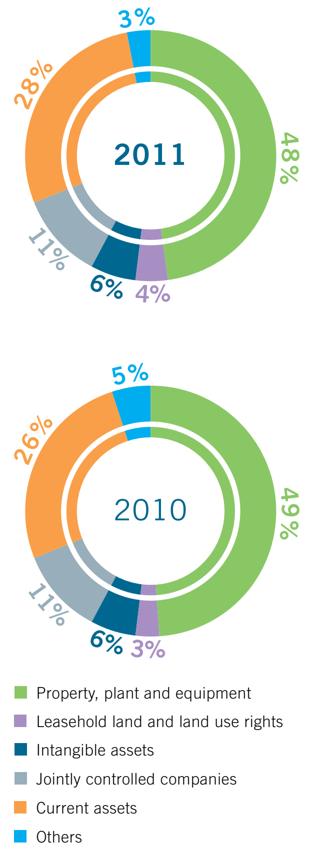
Borrowings and Financing

At 31st December 2011, the Group had net borrowings of HK$106 million (2010: HK$176 million) and a gearing ratio of 1.5%. Net borrowings consisted of short-term loans of HK$154 million and long-term loans of HK$1,296 million, net of bank balances and short-term deposits of HK$1,344 million. Borrowings are denominated in US dollars and HK dollars, and are fully repayable by 2014. The decrease in net borrowings was mainly due to a better performance at HAECO. Committed loan facilities amounted to HK$2,987 million at 31st December 2011, of which HK$1,800 million were undrawn. In addition, there were uncommitted facilities of HK$534 million at the same date, of which HK$268 million were undrawn.

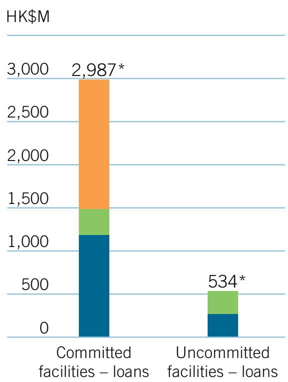
Currency Hedging

The Group's income is primarily in HK and US dollars and is matched by expenditure in the same currencies. The exception is TAECO which has substantial Renminbi expenditure, but whose revenue is mostly in US dollars. 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 31st December 2011, TAECO had sold forward a total of US$151 million to fund part of its Renminbi requirements from 2012 to 2014. The weighted average exchange rate applicable to these forward sales was RMB6.34 to US$1.

Total Assets

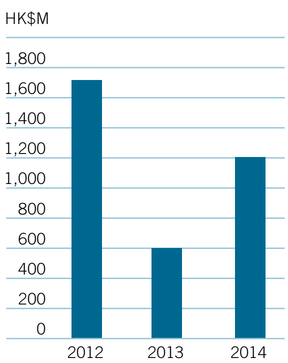


Facilities – Loan

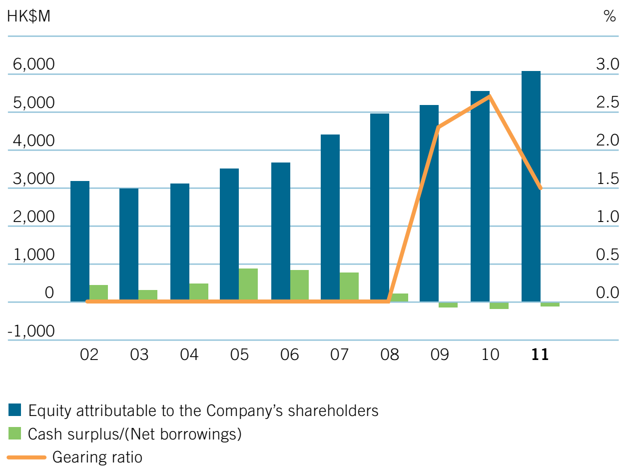


* *Total available amount (HK$M)*

Maturity Profile of Total Available Loan Facilities at 31st December 2011



Equity and Cash Surplus / Net Borrowings



Corporate Governance Practices

The Board is committed to a high standard of corporate governance and has adopted the Code on Corporate Governance Practices (the "CG Code") promulgated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It has complied throughout the year with all the mandatory code provisions and with all the recommended best practices applicable during the year with the following exceptions:

- Independent Non-Executive Directors representing one-third of the Board (Section A.3.2 of the CG Code).
- quarterly reporting (Section C.1.4 of the CG Code). The Board has chosen not to comply with this recommended reporting practice because it is its judgement that, as a matter of principle and practice, quarterly reports would not bring net overall benefits to shareholders.
- establishing a nomination committee (Section A.4.4 of the CG Code). The Board has considered the merits of establishing a nomination committee as recommended but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by both the potential Director and the Board as to suitability for the role.

Investor Relations

All communications for shareholders including reports, announcements and the results of polls of shareholders at shareholder meetings are posted on the Company's website: www.haeco.com. Copies of the Annual and Interim Reports are also made available to shareholders in printed or electronic form. Briefings for the investment community are held shortly after the interim and final results announcements.

The Company's 2011 Annual General Meeting was held on 17th May 2011 and the minutes were posted on the Company's website. This meeting was open to all shareholders and members of the press. The votes at the Annual General Meeting were taken by poll and the poll results were posted on the websites of the Stock Exchange and the Company.

Key shareholder dates for 2012 are set out on page 95 of this report.

Board of Directors

The Company is governed by a Board of Directors, which has responsibility for strategic leadership and control of the Group designed to maximise shareholder value, while taking due account of the broad range of stakeholder interests.

The Board is also responsible for the integrity of financial information and the effectiveness of the Group's systems of internal control and risk management processes. The Directors acknowledge their responsibility for the preparation of the accounts of the Company, its keeping of fair and accurate accounting records and its compliance with the Hong Kong Companies Ordinance. The Board has, with the assistance of its Audit Committee and the internal audit department of the Swire group, conducted a review of the effectiveness of the Group's systems of internal control including the adequacy of the resources, qualifications and experience of the staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board comprises the Chairman, three other Executive Directors, and six Non-Executive Directors. The roles of Chairman and Chief Executive Officer are segregated and are not performed by the same person. All Directors are subject to re-election by shareholders every three years. New Directors, being individuals who are suitably qualified and expected to make a positive contribution to the performance of the Board, are identified by existing Directors and proposed to the Board for appointment. A Director appointed by the Board is subject to election by shareholders at the first general meeting after his or her appointment.

The Non-Executive Directors bring independent judgement on issues of strategy, performance, risk and people through their contribution at Board and Committee meetings. The Board considers that three of the six Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Listing Rule 3.13. L.K.K. Leong has served as an Independent Non-Executive Director for more than nine years. The Directors are of the opinion that he remains independent, notwithstanding his length of tenure. L.K.K. Leong continues to demonstrate the attributes of an Independent Non-Executive Director noted above and there is no evidence that his tenure has had any impact on his independence. The Board believes that his detailed knowledge and experience of the Group's business and his external experience continue to be of significant benefit to the Company, and that he maintains an independent view of its affairs. The Company has received from each of its Independent Non-Executive Directors confirmation of his independence pursuant to Listing Rule 3.13.

The Chairman ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at Board and Committee meetings, and through meeting key members of management.

All Directors have access to the services of the Company Secretary, who regularly updates the Board on governance and regulatory matters. Any Director wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at the Company's expense. The availability of professional advice extends to the Audit and Remuneration Committees.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and Officers.

Minutes of Board meetings are taken by the Company Secretary and, together with supporting Board papers, are available to all Board members.

The Board has three sub-committees: an Executive Committee, an Audit Committee and a Remuneration Committee. The Audit and Remuneration Committees have terms of reference which accord with the principles set out in the CG Code and minutes are taken by the Company Secretary. The work of these Committees is reported to the Board.

All Directors disclose to the Board on their first appointment their interests as a director or otherwise in other companies or organisations and such declarations of interests are updated annually. If a Director has a material conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting and voted on by Directors who have no material interest in the transaction.

Directors' Securities Transactions

The Company has adopted codes of conduct (the "Securities Code") 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. These rules are available on the Company's website. A copy of the Securities Code is sent to each Director of the Company first on his or her appointment and thereafter twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group's interim and annual results have been published, and that all their dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and senior executives of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the annual 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.

Directors' interests as at 31st December 2011 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on page 37.

Executive Committee

The Executive Committee comprises three Executive Directors, one of whom, A.K.W. Tang, is the chairman of the committee, and five senior executives, one of whom is from a jointly controlled company of the Company and one of whom is from a customer of the Company. It is responsible to the Board for overseeing the day-to-day operation of the Company.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting, and corporate control. The Committee consists of three Non-Executive Directors, two of whom, including the Chairman, L.K.K. Leong, are independent. All the members served for the whole of 2011. At the invitation of the Committee, the Director Finance, the head of the internal audit department of the Swire group, and representatives of the external auditors regularly attend its meetings. Other attendees during the year included the Chief Executive Officer and the General Manager (Quality) of the Company. The Committee also meets regularly with the external auditors without the presence of the Company's management.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are available on the Company's website.

The Audit Committee met three times in 2011 and in March 2012. Each meeting receives written reports from the external and internal auditors covering matters of significance arising from the work conducted since the previous meeting. The work of the Committee included the following matters:

- reviewing HAECO management's assessment of the effectiveness of its system of internal control including financial, operational and compliance controls. This assessment was based on completing control self assessment questionnaires.
- reviewing HAECO management's assessment of the effectiveness of its risk management functions. This involved the compilation of registers of the risks involved in managing the business and actively managing the mitigation of these risks. Registers are kept both for enterprise wide risks, which are monitored by Executive Directors, and for specific risks, which are monitored by departmental managers.
- reviewing the 2010 annual and the 2011 interim and annual financial statements.
- after reviewing the independence of the external auditors, PricewaterhouseCoopers, and their policy on conducting non-audit work, recommending their re-appointment to the Board, for the approval by shareholders; approving the 2011 audit plan and the auditors' remuneration.
- approving the annual internal audit programme, reviewing progress against the programme and discussing matters arising; internal audit is done by the internal audit department of the Swire group.
- reviewing the Company's compliance with regulatory and statutory requirements.

Audit Committee meetings are usually held a few days before Board meetings with the results of the Audit Committee's work being reported to and considered at the Board meeting.

Remuneration Committee

The Remuneration Committee comprises three Non-Executive Directors, two of whom – R.E. Adams and L.K.K. Leong – are Independent Non-Executive Directors. It is chaired by P.A. Johansen. The terms of reference of the Remuneration Committee have been reviewed with reference to the Code and are posted on the Company's website.

A Services Agreement exists between the Company and John Swire & Sons (H.K.) Limited, a wholly-owned subsidiary of John Swire & Sons Limited, which is the parent company of the Swire group. This agreement has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of the agreement, staff at various levels, including Executive Directors, are seconded to the Company. Those staff report to and take instructions from the Board of the Company but remain employees of the John Swire & Sons Limited ("Swire") group. As a substantial indirect shareholder of the Company, it is in the best interest of the Swire group to ensure that executives of high quality are seconded to and retained within the HAECO Group.

In order to be able to attract and retain international staff of suitable calibre, the Swire group provides a competitive remuneration package, designed to be commensurate, overall, with those of its peer group. This typically comprises salary, housing, retirement benefits, leave-passage and education allowances and, after three years' service, a bonus related to the overall profit of the Swire group.

Although the remuneration of its seconded executives is not entirely linked to the profits of the Company, it is considered that, given the volatility of aviation related businesses, this has contributed considerably to the maintenance of a flexible, motivated and high-calibre senior management team within the HAECO Group.

A number of Directors and senior staff with specialist skills are employed directly by the Company on similar terms with the principal exception that their bonuses are paid by reference to the results of the Company alone.

The Remuneration Committee has reviewed the structure and levels of remuneration paid to Executive Directors and Officers of the Company. At its meeting in November 2011, the Committee considered a report prepared for it by Mercer Human Resource Consulting Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors and Officers was in line with that paid to equivalent executives in peer group companies. The Committee approved individual remuneration packages to be paid in respect of 2012.

No Director takes part in any discussion about his or her own remuneration.

The number of meetings held by the Board and Committees during the year and the attendance of Directors who are members of these bodies is set out in the table below.

	Meetings Attended/Held			
Directors	Board	Audit Committee	Remuneration Committee	2011 Annual General Meeting
Executive Directors				
C.D. Pratt	6/6			√
A.K.W. Tang	6/6			√
M. Hayman	6/6			√
F.N.Y. Lung	6/6			√
Non-Executive Directors				
C.P. Gibbs	6/6			√
P.A. Johansen	6/6	3/3	2/2	√
M.B. Swire	5/6			√
Independent Non-Executive Directors				
R.E. Adams	5/6	3/3	2/2	√
L.K.K. Leong	5/6	3/3	2/2	√
D.C.L. Tong	5/6			√
Average attendance	93.3%	100%	100%	100%

External Auditors

The remuneration of the Group's external auditors is HK$2.9 million for statutory audit fees as disclosed in note 4 to the accounts and HK$1.2 million for other assurance and tax advisory services. The auditors' statement regarding their reporting responsibilities is included in their audit report on page 40.

Sustainable Development

The value of the Group to its shareholders depends on the sustainable development of its businesses and its involvement with the communities in which it operates. The Group's sustainable development policy recognises this and commits the Group to manage the environmental, health and safety, employment, community and supply chain issues which its operations affect. The policy also commits the Group to work with others to promote sustainable development in the industries in which it operates.

The Group issues a separate sustainable development report, which is available on the Group's website.

Environment

The Group monitors and tries to reduce the impact of its operations on the environment. Its facilities incorporate systems intended to minimise the effect of effluents on the environment. It has a programme to reduce energy and resource usage, and to recycle waste where practicable. It has participated in a Swire group study on greenhouse gas emissions.

Reducing energy consumption and greenhouse gas emissions is a key environmental aim for the Group.

HAECO aims to save on average 200,000 kWh each year in electricity consumption. In 2011, this was achieved through, among other things:

- The use of a magnetic floating compressor in the shop air system;
- The installation of a radiant cooling system in its renovated office area, which uses 40% less electricity than the previous air-conditioning system; and
- Replacing T8 lighting with T5 or LED lighting.

HAESL included energy-efficient features in its Phase 5 building expansion, which opened in June 2011. Examples were centralised cooling, use of natural light, automatic high-speed doors, demand controlled ventilation and air conditioning heat recovery.

In the second half of 2011, TAECO installed solar panels on the roofs of its hangars. This will generate about 1.2 million kWh of electricity and save about 1,000 tonnes of carbon emissions each year.

The Group's other environmental activities in 2011 included the following:

- HAECO joined the Hong Kong Airport Authority's food waste recycling scheme;
- HAESL explored the use of biofuels for engine testing;
- TAECO upgraded the effluent monitoring device in its sewage treatment plant so as to meet the latest requirements in Mainland China; and
- The Group responded to a carbon disclosure project questionnaire.

HAECO was a green medallist at the 2011 Hang Seng Pearl River Delta Environmental Awards.

Health and Safety

The Group aims to conduct its business in a manner that protects the health and safety of its employees, customers, business associates and contractors and of the public. Targets are set and performance is monitored under a safety management system. Safety training is carried out and safety audits are conducted with a view to ensuring that statutory requirements are met and to improving safety.

The Group has employee health programmes. In 2011, HAECO reviewed noise and air quality in its workplaces and introduced a rehabilitation programme for injured workers. HAESL provided prescription safety spectacles to staff. TAECO conducted a sample survey of occupational health.

In 2011, HAECO introduced a workplace organisation methodology called 5S, which represents sorting, straightening, systematic cleaning, standardising and sustaining, in its hangars and workshops and continued to improve the design of work stands and equipment, in each case with a view to establishing high workplace safety standards. Key safety statistics and safety messages were publicised at hangars and workshops reminding staff the importance of safety at work. HAESL assessed the guarding of its machines. TAECO conducted a risk assessment with a view to identifying and eliminating workplace hazards. It used the results to formulate operational safety guidelines.

In 2011, HAECO continued to participate in safety programmes with other organisations at Hong Kong International Airport. HAESL introduced its "I Care I Report" programme to encourage staff to report unsafe acts and conditions and its "HandSafe" programme to increase staff awareness of hand safety. TAECO provided safety management training to those staff responsible for operational health and safety and held an occupational health and safety seminar.

The Group's lost time injury rate (that is the number of instances of time being lost as a result of injury per 200,000 hours worked) fell by 3.5% from 2010 to 2011.

Employees

The Group recognises that the development of its staff is a key to the sustainable development of its business. It places great emphasis on supporting, rewarding and motivating its staff. The Group is committed to provide equal opportunities to employees, and to offer its staff competitive remuneration and benefit packages. It strives to provide an environment that promotes diversity and respect, safeguards health and safety, and encourages an appropriate balance between work and non-work activities.

The Group operates trainee schemes which aim to provide new recruits with the knowledge and experience required for them to become skilled professionals in the aircraft maintenance industry. They include an aircraft maintenance craftsman trainee scheme, an aircraft engineering technician trainee scheme, an aircraft engineering licence trainee scheme and a graduate licence trainee scheme. In 2011, HAECO introduced trade specific English language training and training in personal skills such as leadership and management effectiveness.

HAECO's medical schemes cover the health needs of its staff and their family members. Its in-house clinics offer advice on health issues, provide rehabilitation services for injured workers and organise preventive health programmes.

TAECO believes that loyal and motivated staff are fundamental to its success. Approximately four fifths of TAECO's staff are housed in a purpose-built company residential facility at minimal cost to the staff. 90% of TAECO's staff belong to a union. Management engages constructively with the union. There is also a staff benefits committee, comprising senior managers, middle managers and lower grade staff. TAECO has invested over RMB200 million in a technical training centre (one of the largest such centres in Asia) in order to meet its training and development requirements.

The Group, including its subsidiary and jointly controlled companies, employed over 14,000 staff at the end of 2011, of which 6,173 are in Hong Kong, including 5,102 in HAECO. The staff numbers at the end of 2011 and 2010 are further analysed below.

	2011	2010	Change
HAECO	5,102	4,967	+3%
TAECO	5,240	4,739	+11%
HAESL	1,023	901	+14%
Other subsidiary and jointly controlled companies in which HAECO and TAECO own more than 20%	2,689	2,471	+9%
	14,054	13,078	+7%

The Community

The Group is committed to maintaining good relationships with the communities in which it operates and to enhancing the opportunities and lifestyle available to members of these communities, while respecting their culture and heritage. This commitment is reflected in the Group's sponsorship and community investment programmes, and in its staff's engagement with the community through voluntary service.

HAECO's staff, together with members of its retired staff Veterans Club, are active in showing care to those in need in the local community. They visit elderly local residents and offer a variety of volunteer services to the elderly.

HAECO collaborates with a number of organisations in the training and development of local young people who wish to join the aviation industry. It provides practical training opportunities to students of the Vocational Training Council – Youth College and the Institute of Vocational Education who are studying for aircraft maintenance diplomas. Under the Hong Kong Labour Department's youth pre-employment training programme and work experience and training scheme, HAECO arranges training for young people who show interest in the aircraft maintenance industry and is one of the training bodies appointed by the Hong Kong Employee Retraining Board to provide training for persons who wish to join the aviation industry. HAECO supports the Hong Kong Institution of Engineers through its aircraft engineer development scheme. This scheme has attracted many people to join the aviation industry.

TAECO's community engagement programmes are administered by its social project association ("SPA"). SPA is led by a committee of 13 staff. Over 1,000 staff participated in activities organised by SPA in 2011. Working with Xiamen University's State Key Laboratory of Marine Environmental Science ("MEL"), SPA started planting mangroves in 2009. By the end of 2011, approaching 20,000 mangroves had been planted in a coastal area of 34,000 square metres. In 2011, MEL professors and graduates gave lectures to over 1,200 TAECO staff about climate change and coastal environmental protection. In 2011, SPA started the sunny youth project with Guo Ren Gong You, a non-governmental organisation in Xiamen. TAECO staff volunteered to help the children of migrant workers. Activities included tuition, the provision of library services and the organisation of hobby groups and summer camps.

During the year, the Group made a number of charitable and community donations, including a donation of HK$3 million to Hong Kong charities through The Swire Group Charitable Trust and a donation of HK$42,100 donated to the Hong Kong Polytechnic University as bursaries for its students.

Suppliers

The Group's sustainable development policy commits it to favouring suppliers who share the same sustainability standards as the Group itself. The Group tries to select suppliers who are leaders in sustainability and share the Group's commitment to honesty and integrity.

HAECO introduced a supplier code of conduct in 2009, with a view to encouraging its suppliers to comply with relevant legal requirements and appropriate standards relating to the environment, health and safety and labour matters. Compliance with the code is required by contracts with HAECO's suppliers. The code is available on HAECO's website.

The Group cooperates with the Swire supply chain sustainability working group with a view to promoting sustainable practices by suppliers.

Directors and Officers

Executive Directors

PRATT, Christopher Dale+, CBE, aged 55, has been Chairman and a Director of the Company since August 2006. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Cathay Pacific Airways Limited and Swire Properties Limited, and a Director of The Hongkong and Shanghai Banking Corporation Limited and Air China Limited. He joined the Swire group in 1978 and in addition to Hong Kong has worked with the group in Australia and Papua New Guinea.

TANG, Kin Wing Augustus+, aged 53, has been a Director and Chief Executive Officer of the Company since October 2008 and November 2008 respectively. He joined the Swire group in 1982 and has worked with Cathay Pacific Airways Limited in Hong Kong, Malaysia and Japan. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited.

HAYMAN, Mark, aged 51, joined the Company in October 2001 and has been Director Engineering since February 2002. He was previously General Manager Engineering Planning and Technical Supplies of Cathay Pacific Airways Limited. He joined the Swire group in 1987.

LUNG, Ngan Yee Fanny+, aged 45, has been Director Finance since August 2010. She was previously Finance Director of Swire Pacific Offshore Holdings Limited, a wholly owned subsidiary of Swire Pacific Limited. She joined the Swire group in 1992.

Non-Executive Directors

GIBBS, Christopher Patrick, aged 50, has been a Director of the Company since January 2007. He is also Engineering Director of Cathay Pacific Airways Limited and a Director of Hong Kong Aero Engine Services Limited. He joined Cathay Pacific Airways Limited in 1992.

JOHANSEN, Peter André#*, aged 69, has been a Director of the Company since July 1984 and is Chairman of the Remuneration Committee. He joined the Swire group in 1973 and worked in Hong Kong, Japan and the United Kingdom before retiring from John Swire & Sons Limited on 31st December 2008. He is also a Director of Swire Pacific Limited.

SWIRE, Merlin Bingham+, aged 38, has been a Director of the Company since January 2009. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He was Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, from May 2006 until June 2008. He is a Director and shareholder of John Swire & Sons Limited and Swire Pacific Limited, a Director of Cathay Pacific Airways Limited and Swire Properties Limited, and an Alternate Director of Steamships Trading Company Limited.

Independent Non-Executive Directors

ADAMS, Robert Ernest#*, aged 68, has been a Director of the Company since October 2004. He was previously Managing Director of Fung Capital Asia Investments Limited, a member of the Li & Fung group and an Executive Director of CITIC Pacific Limited.

LEONG, Kwok Kuen Lincoln#*, aged 51, has been a Director of the Company since March 2003 and is Chairman of the Audit Committee. He is also Finance and Business Development Director of MTR Corporation Limited, a Non-Executive Director of Tai Ping Carpets International Limited and an Independent Non-Executive Director of Mandarin Oriental International Limited.

TONG, Chi Leung David, aged 41, has been a Director of the Company since May 2006. He is also a Director of Sir Elly Kadoorie & Sons Limited, Director of CLP Power Hong Kong Limited, Deputy Chairman of Hong Kong Business Aviation Centre Limited and a Non-Executive Director of Tai Ping Carpets International Limited.
Alternate: The Hon. Sir Michael David KADOORIE

Executive Officers

CHAN, Ching Summit+, aged 46, joined the Swire group in 1988 and has worked with the group in Hong Kong and Singapore. He was appointed Commercial Director of the Company in February 2009.

HEALY, Patrick+, aged 46, joined the Swire group in 1988 and has worked with the group in Hong Kong, Germany and Mainland China. He was appointed Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company incorporated in the People's Republic of China, in July 2008.

TANG, Kwok Kit Kenny+, aged 57, was appointed Corporate Development Director of the Company in September 2009 and Chief Operating Officer in May 2010. He joined the Swire group in 1979 and was previously Chief Operating Officer of AHK Air Hong Kong Limited and Chief Executive Officer of Hong Kong Dragon Airlines Limited.

Secretary

FU, Yat Hung David+, aged 48, has been Company Secretary since January 2006. He joined the Swire group in 1988.

Notes:
\# *Members of the Audit Committee*
* *Members of the Remuneration Committee*
\+ *Employees of the John Swire & Sons Limited group*

Directors' Report

The Directors submit their report and the audited accounts for the year ended 31st December 2011, which are set out on pages 41 to 91. Details of the following items are set out in the accounts as follows:

Ten-year Financial Summary

A ten-year financial summary of the results and of the assets and liabilities of the Group is shown on pages 92 and 93.

Dividends

With effect from the year ended 31st December 2011, the Company intends to pay two interim dividends instead of an interim dividend and a final dividend. The second interim dividend will be in lieu of a final dividend. The total amount of dividends paid to shareholders for a year will be the same with two interim dividends as it would have been with an interim dividend and a final dividend.

The Directors have declared a second interim dividend of HK$1.90 per share and a special dividend of HK$3.40 per share for the year ended 31st December 2011. Together with the first interim dividend of HK$0.70 per share paid on 20th September 2011, this makes a total dividend for the year of HK$6.00 per share. This represents a total distribution for the year of HK$998 million. The second interim dividend and special dividend will be paid on 24th April 2012 to shareholders registered at the close of business on the record date, being Friday, 30th March 2012. Shares of the Company will be traded ex-dividend as from Wednesday, 28th March 2012.

Closure of Register of Members

The register of members will be closed on Friday, 30th March 2012, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend and special 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, 29th March 2012.

To facilitate the processing of proxy voting for the annual general meeting to be held on 8th May 2012, the register of members will be closed from 3rd May 2012 to 8th May 2012, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, 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 Wednesday, 2nd May 2012.

Donations

During the year the Company and its subsidiary companies made donations for charitable and community purposes totalling HK$3 million.

Agreement for Services

The Company has an agreement for services with John Swire & Sons (H.K.) Limited ("JSSHK"), the particulars of which are set out in note 36 to the accounts (the note on related party and on continuing connected transactions).

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, F.N.Y. Lung, C.D. Pratt, M.B. Swire and A.K.W. Tang are interested in the JSSHK Services Agreement (as defined below). M.B. Swire is also interested as a shareholder of Swire.

Particulars of the fees paid and expenses reimbursed for the year ended 31st December 2011 are set out in note 36 to the accounts.

Major Customers and Suppliers (Significant Contracts)

65.5% of sales and 28.9% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 44.2% of sales were made to the Group's largest customers, Cathay Pacific Airways Limited ("CX") and its subsidiary companies Hong Kong Dragon Airlines Limited ("KA") and AHK Air Hong Kong Limited, while 6.8% of purchases were from the largest supplier, Airport Authority Hong Kong.

In respect of the Company's transactions with CX and KA:

1. C.P. Gibbs is interested as employee of CX; and
2. C.D. Pratt and M.B. Swire are interested as directors of CX.

Save as disclosed above, no Director, any of their associates or any shareholder who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital has an interest in the customers or suppliers disclosed above.

Continuing Connected Transactions

The Independent Non-Executive Directors, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out in note 36 have been entered into by the Group:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have also reviewed these transactions and confirmed to the Board that:

(a) they have been approved by the Board of the Company;

(b) they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group);

(c) they have been entered into in accordance with the relevant agreements governing the transactions; and

(d) they have not exceeded the relevant annual caps disclosed in previous announcements.

Directors

The names of the present Directors are listed on pages 32 to 33. All the present Directors served throughout the year and still hold office at the date of this report.

The Hon. Sir Michael Kadoorie served as Alternate Director to D.C.L. Tong during the year.

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith L.K.K. Leong, M.B. Swire and A.K.W. Tang retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until his retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election/re-election. No Director has a service contract with the Company that is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Fees totalling HK$1.32 million were paid to the Independent Non-Executive Directors during the year; they received no other emoluments from the Company or any of its subsidiary companies.

Directors' Interests

At 31st December 2011, the registers maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that the following Directors held beneficial interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited and Swire Pacific Limited:

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	*Note*
Hong Kong Aircraft Engineering Company Limited						
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	

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	*Note*
John Swire & Sons Limited						
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	846,476	–	5,655,441	6,501,917	21.67	*2*

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	*Note*
Swire Pacific Limited						
'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:

1. *The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.*
2. *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).

Neither during nor prior to the year under review has any right been granted to, or exercised by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of the Company.

At no time during the year did any Director, other than as stated in this report, have a beneficial interest, whether directly or indirectly, in a contract to which the Company, or any of its associated corporations was a party, which was of significance and in which the Director's interest was material.

At no time during the year was the Company, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interests in Competing Business

None of the Directors and their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

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 31st December 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 attributable interest	*(1)*
2. John Swire & Sons Limited	124,723,637	74.99	Attributable interest	*(2)*

Notes:

At 31st December 2011:

(1) Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner;

(2) 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 42.79% of the issued share capital and approximately 58.45% of the voting rights.

Public Float

From information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, at least 25% of the Company's total issued share capital is held by the public.

Auditors

A resolution for the re-appointment of PricewaterhouseCoopers as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Christopher Pratt
Chairman
Hong Kong, 13th March 2012

Independent Auditor's Report

To the shareholders of Hong Kong Aircraft Engineering Company Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Aircraft Engineering Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13th March 2012

Consolidated Income Statement

for the year ended 31st December 2011

	Note	2011 HK$M	2010 HK$M
Turnover	*4*	**5,171**	4,266
Operating expenses:			
Staff remuneration and benefits	*5*	**(2,366)**	(1,963)
Cost of direct material and job expenses		**(1,260)**	(1,048)
Depreciation, amortisation and impairment	*13, 14*	**(439)**	(381)
Insurance and utilities		**(131)**	(118)
Operating lease rentals – land and buildings		**(157)**	(136)
Repairs and maintenance		**(165)**	(123)
Other		**(152)**	(121)
		(4,670)	(3,890)
Other net gains	*7*	**31**	21
Operating profit		**532**	397
Net finance charges	*8*	**(7)**	(8)
Net operating profit		**525**	389
Share of after-tax results of jointly controlled companies	*16*	**435**	407
Profit before taxation		**960**	796
Taxation	*9*	**(84)**	(73)
Profit for the year		**876**	723
Profit attributable to:			
The Company's shareholders	*10*	**821**	701
Non-controlling interests		**55**	22
		876	723
Dividends			
First interim – paid		**116**	75
Second interim – declared		**316**	–
Final – paid		**–**	274
Special – declared		**566**	–
	11	**998**	349
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	*12*	**HK$4.94**	HK$4.21

The notes on pages 47 to 80 and the principal accounting policies on pages 81 to 91 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2011

	2011 HK$M	2010 HK$M
Profit for the year	**876**	723
Other comprehensive income:		
Changes in cash flow hedges		
– recognised during the year	**–**	5
– deferred tax	**1**	–
– transferred to other net gains	**(8)**	–
Share of other comprehensive income of a jointly controlled company	**(2)**	–
Net translation differences on foreign operations	**189**	34
Other comprehensive income for the year, net of tax	**180**	39
Total comprehensive income for the year	**1,056**	762
Total comprehensive income attributable to:		
The Company's shareholders	**925**	731
Non-controlling interests	**131**	31
	1,056	762

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

The notes on pages 47 to 80 and the principal accounting policies on pages 81 to 91 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2011

	Note	2011 HK$M	2010 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*13*	**4,893**	4,615
Leasehold land and land use rights	*13*	**370**	312
Intangible assets	*14*	**560**	570
Jointly controlled companies	*16*	**1,100**	1,064
Derivative financial instruments	*20*	**3**	1
Deferred tax assets	*19*	**69**	39
Retirement benefit assets	*18*	**320**	301
		7,315	6,902
Current assets			
Stocks of aircraft parts	*22*	**310**	289
Work in progress	*23*	**143**	147
Trade and other receivables	*24*	**993**	740
Derivative financial instruments	*20*	**5**	7
Cash and cash equivalents	*31(b)*	**1,320**	1,098
Short-term deposits	*31(b)*	**24**	154
		2,795	2,435
Current liabilities			
Trade and other payables	*25*	**1,157**	972
Taxation payable		**18**	65
Short-term loans	*26*	**154**	223
Long-term loans due within one year	*26*	**1,003**	639
		2,332	1,899
Net current assets		**463**	536
Total assets less current liabilities		**7,778**	7,438
Non-current liabilities			
Long-term loans	*26*	**293**	566
Receipt in advance	*30*	**58**	69
Deferred tax liabilities	*19*	**336**	319
Derivative financial instruments	*20*	**1**	–
		688	954
NET ASSETS		**7,090**	6,484
EQUITY			
Share capital	*27*	**166**	166
Reserves	*28*	**5,909**	5,397
Equity attributable to the Company's shareholders		**6,075**	5,563
Non-controlling interests	*29*	**1,015**	921
TOTAL EQUITY		**7,090**	6,484

The financial statements have been approved by the Board of Directors and signed on their behalf by:

Christopher Pratt
Lincoln Leong
Directors

Hong Kong, 13th March 2012

The notes on pages 47 to 80 and the principal accounting policies on pages 81 to 91 form part of these financial statements.

Company Statement of Financial Position

at 31st December 2011

	Note	2011 HK$M	2010 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*13*	**2,460**	2,440
Leasehold land	*13*	**15**	16
Subsidiary companies	*15*	**801**	801
Jointly controlled companies	*16*	**145**	135
Loan to a subsidiary company	*15*	**–**	8
Retirement benefit assets	*18*	**320**	301
		3,741	3,701
Current assets			
Stocks of aircraft parts	*22*	**201**	203
Work in progress	*23*	**65**	75
Trade and other receivables	*24*	**809**	572
Cash and cash equivalents		**813**	589
		1,888	1,439
Current liabilities			
Trade and other payables	*25*	**597**	576
Taxation payable		**16**	65
Long-term loans due within one year	*26*	**100**	–
		713	641
Net current assets		**1,175**	798
Total assets less current liabilities		**4,916**	4,499
Non-current liabilities			
Long-term loans	*26*	**98**	100
Receipt in advance	*30*	**58**	69
Deferred tax liabilities	*19*	**276**	261
		432	430
NET ASSETS		**4,484**	4,069
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	*27*	**166**	166
Reserves	*28*	**4,318**	3,903
TOTAL EQUITY		**4,484**	4,069

The financial statements have been approved by the Board of Directors and signed on their behalf by:

Christopher Pratt
Lincoln Leong
Directors

Hong Kong, 13th March 2012

The notes on pages 47 to 80 and the principal accounting policies on pages 81 to 91 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2011

	Note	2011 HK$M	2010 HK$M
Operating activities			
Cash generated from operations	*31(a)*	**796**	478
Interest paid		**(25)**	(13)
Interest received		**17**	8
Profits tax (paid)/recovered		**(163)**	8
Net cash generated from operating activities		**625**	481
Investing activities			
Purchase of property, plant and equipment		**(532)**	(416)
Additions of intangible assets		**–**	(16)
Proceeds from disposals of property, plant and equipment		**3**	8
Purchase of shares in an existing subsidiary company		**–**	(62)
Purchase of shares in a jointly controlled company		**(9)**	–
Loans to jointly controlled companies		**(89)**	(11)
Repayment of loans by jointly controlled companies		**41**	4
Dividends received from jointly controlled companies		**420**	334
Distributions to non-controlling interests on disposal of subsidiary companies		**(5)**	–
Net decrease/(increase) in short-term deposits other than cash and cash equivalents		**133**	(15)
Net cash used in investing activities		**(38)**	(174)
Net cash inflow before financing activities		**587**	307
Financing activities			
Proceeds from loans		**151**	707
Repayment of loans		**(129)**	(405)
Advance from a non-controlling interest		**24**	–
Dividends paid to the Company's shareholders		**(390)**	(324)
Dividends paid to non-controlling interests		**(33)**	(34)
Net cash used in financing activities		**(377)**	(56)
Net increase in cash and cash equivalents		**210**	251
Cash and cash equivalents at 1st January		**1,098**	844
Currency adjustment		**12**	3
Cash and cash equivalents at 31st December	*31(b)*	**1,320**	1,098

The notes on pages 47 to 80 and the principal accounting policies on pages 81 to 91 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2011

	Attributable to the Company's shareholders					
	Share capital HK$M	Revenue reserve HK$M	Other reserves HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2011	**166**	**5,336**	**61**	**5,563**	**921**	**6,484**
Profit for the year	**–**	**821**	**–**	**821**	**55**	**876**
Other comprehensive income	**–**	**–**	**104**	**104**	**76**	**180**
Total comprehensive income for the year	**–**	**821**	**104**	**925**	**131**	**1,056**
Change in tax treatment for retirement benefits	**–**	**(23)**	**–**	**(23)**	**–**	**(23)**
Dividends paid and payable	**–**	**(390)**	**–**	**(390)**	**(32)**	**(422)**
Change in composition of Group	**–**	**–**	**–**	**–**	**(5)**	**(5)**
At 31st December 2011	**166**	**5,744**	**165**	**6,075**	**1,015**	**7,090**

		Attributable to the Company's shareholders					
	Note	Share capital HK$M	Revenue reserve HK$M	Other reserves HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2010		166	4,980	31	5,177	964	6,141
Profit for the year		–	701	–	701	22	723
Other comprehensive income		–	–	30	30	9	39
Total comprehensive income for the year		–	701	30	731	31	762
Dividends paid and payable		–	(324)	–	(324)	(32)	(356)
Change in composition of Group	*29, 34*	–	(21)	–	(21)	(42)	(63)
At 31st December 2010		166	5,336	61	5,563	921	6,484

The notes on pages 47 to 80 and the principal accounting policies on pages 81 to 91 form part of these financial statements.

Notes to the Accounts

1. Principal activities

The Hong Kong Aircraft Engineering Company Limited Group is engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong and Mainland China. Segment information is provided in note 4.

The principal activities of the Group's subsidiary and jointly controlled companies are set out on page 80. Financial summaries of the jointly controlled companies are provided in note 16.

2. Financial risk management

(a) Financial risk factors

The Group's activities are exposed to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It is the Group's policy not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk, principally foreign exchange risk, and the Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the transactions being hedged.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Renminbi. Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations.

The Group Treasury's risk management policy is to hedge not more than 100% of the net notional value of highly probable transactions (largely represented by operating and capital expenditure) in each major foreign currency, for a period of up to 36 months, where their value of time to execution gives rise to a significant currency exposure, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive having regard to the underlying exposure.

At 31st December 2011, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, profit for the year and total equity would have been HK$8 million (2010: nil) and HK$136 million (2010: HK$33 million) higher/lower respectively, arising mainly from the movement in the exchange translation reserve caused by the translation of the net investment in foreign operations.

(ii) Interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group earns interest income on cash deposits. During 2010 and 2011, the Group's borrowings were at variable rates and were primarily denominated in HK dollars and US dollars.

The Group's results are not materially affected by changes in interest rates due to the Group's low level of gearing.

(iii) Credit risk

Credit risk is managed on a group basis. The Group's credit risk is primarily attributable to trade and other receivables with customers, derivative financial instruments and cash and deposits with banks and financial institutions.

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk (continued)

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.

When depositing surplus funds or entering into derivative contracts, the Group controls its exposure to non-performance by counterparties by dealing with investment grade counterparties, setting approved counterparty limits and applying monitoring procedures.

The maximum credit risk in respect of financial guarantees is outlined as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Guarantees provided in respect of bank loans of:				
Subsidiary companies	**–**	–	**716**	653
A jointly controlled company	**55**	–	**–**	–
	55	–	**716**	653

(iv) Liquidity risk

The Group takes liquidity risk into consideration when deciding its sources of funds and their tenors, so as to avoid over reliance on funds from any one source and to prevent substantial refinancing in any one period. The Group maintains significant undrawn committed revolving credit facilities and cash deposits in order to reduce liquidity risk further and to allow for flexibility in meeting funding requirements.

The Group aims to maintain immediate access to committed funds to meet its refinancing and capital commitments for the following 12 months on a rolling basis.

The tables below analyse the contractual undiscounted cash flows of the Group's and the Company's financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the earliest date the Group and the Company can be required to make payment:

	Total contractual undiscounted cash flow HK$M	Within 1 year or on demand HK$M	Between 1 and 2 years HK$M	Between 2 and 5 years HK$M	More than 5 years HK$M
At 31st December 2011					
Group					
Bank loans (including interest obligations)	**1,468**	**1,169**	**13**	**286**	**–**
Trade and other payables	**1,157**	**1,157**	**–**	**–**	**–**
Derivative financial instruments at notional value	**281**	**44**	**119**	**118**	**–**
Financial guarantee contracts	**55**	**–**	**–**	**55**	**–**
	2,961	**2,370**	**132**	**459**	**–**

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

	Total contractual undiscounted cash flow HK$M	Within 1 year or on demand HK$M	Between 1 and 2 years HK$M	Between 2 and 5 years HK$M	More than 5 years HK$M
At 31st December 2010					
Group					
Bank loans (including interest obligations)	1,444	873	571	–	–
Trade and other payables	972	972	–	–	–
	2,416	1,845	571	–	–

	Total contractual undiscounted cash flow HK$M	Within 1 year or on demand HK$M	Between 1 and 2 years HK$M	Between 2 and 5 years HK$M	More than 5 years HK$M
At 31st December 2011					
Company					
Bank loans (including interest obligations)	**203**	**102**	**1**	**100**	**–**
Trade and other payables	**597**	**597**	**–**	**–**	**–**
Financial guarantee contracts	**716**	**665**	**5**	**46**	**–**
	1,516	**1,364**	**6**	**146**	**–**

	Total contractual undiscounted cash flow HK$M	Within 1 year or on demand HK$M	Between 1 and 2 years HK$M	Between 2 and 5 years HK$M	More than 5 years HK$M
At 31st December 2010					
Company					
Bank loans (including interest obligations)	102	1	101	–	–
Trade and other payables	576	576	–	–	–
Financial guarantee contracts	653	391	262	–	–
	1,331	968	363	–	–

Note: Forward foreign exchange contracts are included in derivative financial liabilities to reduce the Group's exposure to changes in exchange rates.

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern and to secure access to finance at a reasonable cost.

The Group considers a number of factors in monitoring its capital structure, which principally include the gearing ratio and the return cycle of its various investments. The gearing ratio is calculated as net borrowings divided by total equity, as defined in the Glossary on page 94. The gearing ratio at 31st December 2011 was 1.5% (2010: 2.7%). The decrease in the gearing ratio during 2011 principally reflects more cash having been generated from operations.

2. Financial risk management (continued)

(b) Capital management (continued)

The Company has entered into financial covenants in respective of the maintenance of minimum consolidated net worth in order to secure funding. To date, none of the covenants has been breached.

(c) Fair value estimation

The amendment to HKFRS 7 for financial instruments that are measured in the statement of financial position at fair value requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's only financial instruments affected by such valuation methods are derivatives not qualifying as hedges and derivatives used for hedging. The fair value of derivatives is based on inputs other than quoted prices included within level 1 that are observable for the instruments therefore are all categorised as level 2. The fair values of these derivatives are as follows:

	Group	
	2011	2010
	HK$M	HK$M
Assets		
Derivatives not qualifying as hedges	**8**	–
Derivatives used for hedging	**–**	8
Total	**8**	8
Liabilities		
Derivatives not qualifying as hedges	**1**	–
Derivatives used for hedging	**–**	–
Total	**1**	–

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each financial reporting date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using forward exchange rates quoted in the market at the reporting date.

The carrying value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, inevitably, seldom be equal to the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed on the next page:

3. Critical accounting estimates and judgements (continued)

(a) Impairment of assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is determined using fair value less costs to sell or value-in-use calculations as appropriate. These calculations require the use of estimates. Refer to note 14 for details of goodwill impairment testing.

(b) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are transactions and calculations relating to the Group's ordinary business activities for which the ultimate tax determination is uncertain. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year in which the outcomes become known.

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 is as follows:

				HAESL				
	HAECO HK$M	TAECO HK$M	TEXL HK$M	At 100% HK$M	Adjustments to reflect the Group's equity share HK$M	Other segments – subsidiary companies HK$M	Inter-segment elimination/ unallocated adjustments HK$M	Total HK$M
Year ended 31st December 2011								
External turnover	**3,307**	**1,581**	**170**	**9,404**	**(9,404)**	**113**	**–**	**5,171**
Inter-segment turnover	**71**	**4**	**–**	**7**	**(7)**	**19**	**(94)**	**–**
Total turnover	**3,378**	**1,585**	**170**	**9,411**	**(9,411)**	**132**	**(94)**	**5,171**
Operating profit/(loss)	**456**	**173**	**(80)**	**930**	**(930)**	**(18)**	**1**	**532**
Finance income	**5**	**13**	**3**	**1**	**(1)**	**–**	**(3)**	**18**
Finance charges	**(5)**	**(4)**	**(12)**	**(3)**	**3**	**(7)**	**3**	**(25)**
Share of after-tax results of jointly controlled companies	**–**	**–**	**–**	**149**	**266**	**–**	**20**	**435**
Profit/(loss) before taxation	**456**	**182**	**(89)**	**1,077**	**(662)**	**(25)**	**21**	**960**
Taxation (charge)/credit	**(75)**	**(12)**	**2**	**(155)**	**155**	**5**	**(4)**	**(84)**
Profit/(loss) for the year	**381**	**170**	**(87)**	**922**	**(507)**	**(20)**	**17**	**876**
Depreciation and amortisation	**194**	**132**	**62**	**71**	**(71)**	**33**	**–**	**421**
Provision for/(written back of) impairment of stock and rotable spares	**28**	**4**	**–**	**(2)**	**2**	**–**	**–**	**32**
Auditors' remuneration – statutory audit fees	**2**	**1**	**–**	**–**	**–**	**–**	**–**	**3**

4. Segment information (continued)

	HAECO HK$M	TAECO HK$M	TEXL HK$M	HAESL At 100% HK$M	HAESL Adjustments to reflect the Group's equity share HK$M	Other segments – subsidiary companies HK$M	Inter-segment elimination/ unallocated adjustments HK$M	Total HK$M
Year ended 31st December 2010								
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	–	–	–
Auditors' remuneration – statutory audit fees	1	1	–	–	–	–	–	2

	HAECO HK$M	TAECO HK$M	TEXL HK$M	HAESL At 100% HK$M	HAESL Adjustments to reflect the Group's equity share HK$M	Other segments – subsidiary companies HK$M	Inter-segment elimination/ unallocated adjustments HK$M	Total HK$M
At 31st December 2011								
Total segment assets	**4,683**	**2,955**	**1,369**	**3,825**	**(3,825)**	**392**	**(420)**	**8,979**
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	**236**	**259**	**87**	**142**	**(142)**	**24**	**–**	**606**
Total segment liabilities	**1,145**	**770**	**1,095**	**2,275**	**(2,275)**	**400**	**(390)**	**3,020**

4. Segment information (continued)

	HAECO	TAECO	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2010								
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

	2011	2010
	HK$M	HK$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	**8,979**	8,242
Unallocated: investment in jointly controlled companies	**1,100**	1,064
Unallocated: intangible assets – goodwill	**31**	31
Total assets	**10,110**	9,337

The Group's jointly controlled companies, except for SAESL, are held by HAECO and TAECO.

Reportable segments' liabilities are equal to total liabilities.

Transactions between segments are carried out on an arm's length basis. The turnover from external parties reported to the Board of Directors is measured in a manner consistent with that in the income statement.

4. Segment information (continued)

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.

	2011	2010
	HK$M	HK$M
The Group's turnover derived from external customers:		
In Hong Kong	2,428	1,894
In other countries	2,743	2,372
	5,171	4,266
Total non-current assets other than financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	2,475	2,460
In other countries (mainly in Mainland China)	3,348	3,037
	5,823	5,497
Turnover in HAECO and TAECO derived from a single external customer	2,287	1,818

5. Staff remuneration and benefits

Total staff remuneration and benefits including pension scheme contributions, salaries, allowances, benefits in kind and staff benefit administration costs for 2011 amounted to HK$2,366 million (2010: HK$1,963 million). Of the five highest paid employees, two (2010: three) were Directors and two (2010: two) were Executive Officers whose emoluments are given in note 6. The emolument of the remaining one (2010: nil) individual during the year is as follows:

	2011	2010
	HK$000	HK$000
Basic salary	1,484	–
Bonus	464	–
Allowances, gratuities and benefits	2,574	–
Retirement scheme contributions	12	–
	4,534	–

6. Directors' and Executive Officers' emoluments

The total number of Directors who served during the year was ten (2010: fourteen) and the total number of Executive Officers who served during the year was four (2010: four). Their emoluments were as follows:

	Group							
	Cash			Non Cash				
	Basic salary/ Directors' fees (note a) HK$000	Bonus (note b) HK$000	Allowances and benefits HK$000	Retirement schemes contributions HK$000	Bonus paid to retirement schemes HK$000	Housing & other benefits HK$000	**2011 Total HK$000**	2010 Total HK$000
Executive Directors:								
Christopher Pratt	593	446	35	171	138	373	**1,756**	1,470
Chan Ping Kit (until 19th March 2010)	–	–	–	–	–	–	**–**	6,029
Augustus Tang	2,886	3,492	1,325	153	–	1	**7,857**	6,616
Charles Bremridge (until 1st April 2009)	–	–	–	–	–	–	**–**	259
Mark Hayman	1,992	1,273	919	–	–	20	**4,204**	3,779
Michelle Low (until 4th August 2010)	–	858	–	–	–	–	**858**	2,568
Fanny Lung (from 4th August 2010)	1,584	513	364	84	–	1	**2,546**	720
	7,055	6,582	2,643	408	138	395	**17,221**	21,441
Non-Executive Directors:								
Christopher Gibbs	–	–	–	–	–	–	**–**	–
Davy Ho (until 1st April 2010)	–	–	–	–	–	–	**–**	–
Peter Johansen	481	–	–	–	–	–	**481**	415
Merlin Swire	–	–	–	–	–	–	**–**	–
	481	–	–	–	–	–	**481**	415
Independent Non-Executive Directors:								
Robert Adams	470	–	–	–	–	–	**470**	405
Albert Lam (until 6th June 2010)	–	–	–	–	–	–	**–**	128
Lincoln Leong	500	–	–	–	–	–	**500**	430
David Tong	345	–	–	–	–	–	**345**	300
	1,315	–	–	–	–	–	**1,315**	1,263
2011 total	**8,851**	**6,582**	**2,643**	**408**	**138**	**395**	**19,017**	
2010 total	9,261	4,850	6,017	343	189	2,459		23,119
Executive Officers:								
Summit Chan	1,382	924	445	73	–	2	**2,826**	2,418
John Chi (until 30th September 2011)	1,430	943	667	–	–	1,315	**4,355**	5,038
Patrick Healy	1,500	806	952	432	613	1,262	**5,565**	5,021
Kenny Tang	2,048	1,369	634	109	–	1	**4,161**	2,935
	6,360	4,042	2,698	614	613	2,580	**16,907**	15,412
2011 total	**6,360**	**4,042**	**2,698**	**614**	**613**	**2,580**	**16,907**	
2010 total	6,484	2,232	2,777	618	352	2,949		15,412

Notes:

a. Annual Directors' fees are determined by the Board and for 2011 comprised Director's fee of HK$345,000 (2010: HK$300,000), fee for members serving on Audit Committee of HK$90,000 (2010: HK$75,000) and fee for members serving on Remuneration Committee of HK$35,000 (2010: HK$30,000) respectively. The fee for the Chairman of Audit Committee is HK$120,000 (2010: HK$100,000) and the fee for the Chairman of Remuneration Committee is HK$46,000 (2010: HK$40,000).

b. Bonuses are not yet approved for 2011. The amounts disclosed above are related to services as Executive Directors or Executive Officers for 2010 but paid and charged to the Group in 2011.

7. Other net gains

	Group 2011 HK$M	Group 2010 HK$M
Net foreign exchange gains	**36**	27
Loss on disposal of property, plant and equipment	**(5)**	(6)
	31	21

8. Net finance charges

	Group 2011 HK$M	Group 2010 HK$M
Finance income:		
Short-term deposits and bank balances	**16**	8
Loans due from jointly controlled companies	**2**	–
Finance charges:		
Bank loans	**(25)**	(16)
	(7)	(8)

9. Taxation

	Group 2011 HK$M	Group 2010 HK$M
Current taxation:		
Hong Kong profits tax	**64**	65
Overseas taxation	**32**	8
Under/(over)-provisions in prior years	**20**	(8)
	116	65
Deferred taxation (note 19):		
Increase in deferred tax assets	**(24)**	–
(Decrease)/increase in deferred tax liabilities	**(8)**	8
	84	73

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

In July 2011, the Inland Revenue Department in Hong Kong changed its practice regarding tax treatments on defined benefit plans. The total net expenses charged in the income statement under defined benefit plans are no longer allowable for deduction when calculating the estimated assessable profits for the year. Instead, contributions paid will be allowable for deduction. The Group has considered the change in practice and reflected it in the Group's accounts. The change in practice has not had a significant effect on the Group's accounts.

The Group's share of jointly controlled companies' tax charge of HK$91 million (2010: HK$70 million) is included in the share of after-tax results of jointly controlled companies shown in the consolidated income statement.

9. Taxation (continued)

The tax charge on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate of the Company as follows:

	Group	
	2011	2010
	HK$M	HK$M
Profit before taxation	**960**	796
Calculated at a tax rate of 16.5% (2010: 16.5%)	**158**	131
Share of after-tax results of jointly controlled companies	**(72)**	(67)
Effect of different tax rates in other countries	**17**	(1)
Income not subject to tax	**(15)**	(5)
Expenses not deductible for tax purposes	**6**	1
Unused tax losses not recognised	**11**	8
Under/(over)-provisions in prior years	**20**	(8)
Effect of change in tax rates	**(24)**	–
Others	**(17)**	14
Tax charge	**84**	73

10. Profit attributable to the Company's shareholders

Of the profit attributable to the Company's shareholders, HK$828 million (2010: HK$697 million) is dealt with in the financial statements of the Company.

11. Dividends

	Company	
	2011	2010
	HK$M	HK$M
First interim dividend paid on 20th September 2011 of HK$0.70 per share (2010: HK$0.45 per share)	**116**	75
Second interim dividend (in lieu of a final dividend) declared on 13th March 2012 of HK$1.90 per share (2010: nil)	**316**	–
Final dividend: nil (2010 actual final dividend paid: HK$1.65 per share)	**–**	274
Special dividend declared on 13th March 2012 of HK$3.40 per share (2010: nil)	**566**	–
	998	349

The second interim dividend and special dividend are not accounted for because they had not been declared and approved at the reporting date. The actual amount will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2012.

12. Earnings per share (basic and diluted)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK$821 million (2010: HK$701 million) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2010: 166,324,850).

13. Property, plant and equipment and leasehold land and land use rights

	Group						
	Property, plant and equipment						
	Buildings and building facilities HK$M	Plant, machinery and tools HK$M	Vehicles, equipment and furniture HK$M	Rotable spares HK$M	Assets under construction HK$M	Total HK$M	Leasehold land and land use rights HK$M
Cost							
At 1st January 2010	4,787	1,545	196	250	326	7,104	384
Translation differences	13	9	–	–	4	26	4
Additions and transfers	16	162	(38)	9	197	346	–
Disposals	–	(32)	(12)	(14)	–	(58)	–
At 31st December 2010	4,816	1,684	146	245	527	7,418	388
Translation differences	139	74	5	–	26	244	21
Additions and transfers	560	262	21	170	(482)	531	53
Disposals	(1)	(60)	(9)	(9)	–	(79)	–
At 31st December 2011	**5,514**	**1,960**	**163**	**406**	**71**	**8,114**	**462**
Accumulated depreciation, amortisation and impairment							
At 1st January 2010	1,346	877	149	114	–	2,486	67
Translation differences	3	4	–	–	–	7	–
Depreciation and amortisation charge/ (transfer) for the year	185	186	(32)	15	–	354	9
Disposals	–	(28)	(11)	(5)	–	(44)	–
At 31st December 2010	1,534	1,039	106	124	–	2,803	76
Translation differences	49	38	3	–	–	90	6
Depreciation charge for the year	212	127	20	22	–	381	10
Impairment charge for the year	–	–	–	18	–	18	–
Disposals	–	(57)	(10)	(4)	–	(71)	–
At 31st December 2011	**1,795**	**1,147**	**119**	**160**	**–**	**3,221**	**92**
Net book value							
At 31st December 2011	**3,719**	**813**	**44**	**246**	**71**	**4,893**	**370**
At 31st December 2010	3,282	645	40	121	527	4,615	312

13. Property, plant and equipment and leasehold land and land use rights (continued)

	Company						
	Property, plant and equipment						
	Buildings and building facilities HK$M	Plant, machinery and tools HK$M	Vehicles, equipment and furniture HK$M	Rotable spares HK$M	Assets under construction HK$M	Total HK$M	Leasehold land HK$M
Cost							
At 1st January 2010	3,025	591	137	250	21	4,024	21
Additions and transfers	7	97	(43)	9	(10)	60	–
Disposals	–	(15)	(10)	(14)	–	(39)	–
At 31st December 2010	3,032	673	84	245	11	4,045	21
Additions and transfers	21	29	10	170	6	236	–
Disposals	–	(16)	(4)	(9)	–	(29)	–
At 31st December 2011	**3,053**	**686**	**90**	**406**	**17**	**4,252**	**21**
Accumulated depreciation, amortisation and impairment							
At 1st January 2010	796	430	112	114	–	1,452	5
Depreciation and amortisation charge/ (transfer) for the year	113	94	(41)	15	–	181	–
Disposals	–	(14)	(9)	(5)	–	(28)	–
At 31st December 2010	909	510	62	124	–	1,605	5
Depreciation charge for the year	114	46	11	22	–	193	1
Impairment charge for the year	–	–	–	18	–	18	–
Disposals	–	(16)	(4)	(4)	–	(24)	–
At 31st December 2011	**1,023**	**540**	**69**	**160**	**–**	**1,792**	**6**
Net book value							
At 31st December 2011	**2,030**	**146**	**21**	**246**	**17**	**2,460**	**15**
At 31st December 2010	2,123	163	22	121	11	2,440	16

At 31st December 2011 and 2010, none of the Group's and Company's property, plant and equipment was pledged as security for the Group's and Company's loans.

Assets under construction mainly relate to plant and machinery not yet ready for use.

Of the leasehold land and land use rights of HK$370 million (2010: HK$312 million), HK$15 million (2010: HK$16 million) relates to the net book value of leasehold land held in Hong Kong by the Company and HK$355 million (2010: HK$296 million) relates to the net book value of land use rights held in Mainland China by TAECO, TALSCO and TEXL. Both leasehold land and land use rights are held on medium-term leases.

The impairment charge in respect of rotable spares is due to the termination of service contracts with customers.

14. Intangible assets

	Group				Company
	Goodwill HK$M	Technical licences HK$M	Others HK$M	Total HK$M	Others HK$M
Cost					
At 1st January 2010	30	517	14	561	10
Translation differences	1	21	–	22	–
Additions	–	1	15	16	–
At 31st December 2010	31	539	29	599	10
Translation differences	–	(3)	1	(2)	–
Additions and transfers	–	–	22	22	–
At 31st December 2011	**31**	**536**	**52**	**619**	**10**
Accumulated amortisation					
At 1st January 2010	–	–	10	10	10
Translation differences	–	1	–	1	–
Amortisation charge for the year	–	17	1	18	–
At 31st December 2010	–	18	11	29	10
Amortisation charge for the year	–	26	4	30	–
At 31st December 2011	**–**	**44**	**15**	**59**	**10**
Net book value					
At 31st December 2011	**31**	**492**	**37**	**560**	**–**
At 31st December 2010	31	521	18	570	–

The technical licences have a remaining amortisation period of 19 years (2010: 20 years).

Impairment test of goodwill

Goodwill relates to TEXL which is a cash-generating unit ("CGU") of the Group and an operating segment in its own right. The recoverable amount attributable to this CGU is determined based on a value in use calculation. This calculation uses the financial budget and plan covering a period of ten years. Cash flows beyond this period are extrapolated at the same level as in the tenth year. The discount rate used at 31st December 2011 was 8% (2010: 5.3%). The discount rate reflects the specific risks relating to the CGU.

15. Subsidiary companies

	Company	
	2011 **HK$M**	2010 HK$M
Unlisted shares at cost	**801**	801

The principal subsidiary companies are shown on page 80.

A loan due from a subsidiary company of HK$8 million (2010: HK$8 million) is unsecured and interest free (2010: same). The loan is repayable in 2012.

16. Jointly controlled companies

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Unlisted shares at cost	**197**	183	**145**	135
Attributable post-acquisition reserves	**903**	881	**–**	–
	1,100	1,064	**145**	135
Dividends received and receivable from jointly controlled companies during the year	**426**	342	**402**	325

The principal jointly controlled companies are shown on page 80.

Included in trade and other receivables are loans due from jointly controlled companies to the Group of HK$76 million (2010: HK$26 million) which are unsecured and carry interest at 3.60% to 6.71% per annum (2010: 3.60% per annum). The loans are repayable at various dates in 2012.

The Group's share of the results, assets and liabilities of the jointly controlled companies for the year ended and at 31st December are as follows:

	HAESL		Others		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Turnover	**4,232**	3,280	**402**	335	**4,634**	3,615
Operating expenses	**(3,813)**	(2,896)	**(355)**	(298)	**(4,168)**	(3,194)
Operating profit	**419**	384	**47**	37	**466**	421
Net finance charges	**(1)**	(1)	**(6)**	(3)	**(7)**	(4)
Share of after-tax results of jointly controlled companies	**67**	60	**–**	–	**67**	60
Profit before taxation	**485**	443	**41**	34	**526**	477
Taxation	**(70)**	(63)	**(21)**	(7)	**(91)**	(70)
Profit for the year	**415**	380	**20**	27	**435**	407
Dividends paid and/or declared	**380**	297	**46**	45	**426**	342
Net assets employed:						
Non-current assets	**575**	537	**356**	356	**931**	893
Current assets	**1,249**	765	**266**	225	**1,515**	990
	1,824	1,302	**622**	581	**2,446**	1,883
Current liabilities	**(851)**	(405)	**(246)**	(285)	**(1,097)**	(690)
Non-current liabilities	**(173)**	(129)	**(78)**	–	**(251)**	(129)
	800	768	**298**	296	**1,098**	1,064
Financed by:						
Shareholders' equity	**800**	768	**298**	296	**1,098**	1,064

16. Jointly controlled companies (continued)

The significant movements are analysed as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
At 1st January	**1,064**	988	**135**	135
Translation differences	**15**	11	**–**	–
Acquisition of new interest in Shanghai Taikoo Aircraft Engineering Services Company Limited	**14**	–	**10**	–
Share of retained profit	**9**	65	**–**	–
Other equity movement	**(2)**	–	**–**	–
At 31st December	**1,100**	1,064	**145**	135

Acquisition of interest in Shanghai Taikoo Aircraft Engineering Services Company Limited

On 19th December 2011, the Company and TAECO acquired 34% and 15% interests respectively in Shanghai Taikoo Aircraft Engineering Services Company Limited (formerly known as Shanghai SR Aircraft Technics Company Limited) for a cash consideration of HK$9 million and HK$4 million respectively.

The potential undiscounted amount of contingent consideration the Group could be required to make under the sale and purchase agreement is HK$1 million. This consideration is contingent on the conversion of customer contracts.

The fair value of the net assets at the date of acquisition was HK$13 million, giving rise to goodwill of HK$1 million.

17. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	Group				Company
	Loans and receivables HK$M	At fair value through profit or loss HK$M	Derivatives used for hedging HK$M	Total HK$M	Loans and receivables HK$M
At 31st December 2011					
Assets					
Derivative financial instruments	–	8	–	8	–
Trade and other receivables	998	–	–	998	814
Bank balances and short-term deposits	1,344	–	–	1,344	813
Total	**2,342**	**8**	**–**	**2,350**	**1,627**

	Derivatives used for hedging HK$M	At fair value through profit or loss HK$M	Other financial liabilities HK$M	Total HK$M	Other financial liabilities HK$M
At 31st December 2011					
Liabilities					
Derivative financial instruments	–	1	–	1	–
Trade and other payables	–	–	1,157	1,157	597
Borrowings	–	–	1,450	1,450	198
Total	**–**	**1**	**2,607**	**2,608**	**795**

	Loans and receivables HK$M	At fair value through profit or loss HK$M	Derivatives used for hedging HK$M	Total HK$M	Loans and receivables HK$M
At 31st December 2010					
Assets					
Derivative financial instruments	–	–	8	8	–
Trade and other receivables	740	–	–	740	572
Loan to a subsidiary company	–	–	–	–	8
Bank balances and short-term deposits	1,252	–	–	1,252	589
Total	1,992	–	8	2,000	1,169

	Derivatives used for hedging HK$M	At fair value through profit or loss HK$M	Other financial liabilities HK$M	Total HK$M	Other financial liabilities HK$M
At 31st December 2010					
Liabilities					
Trade and other payables	–	–	972	972	576
Borrowings	–	–	1,428	1,428	100
Total	–	–	2,400	2,400	676

18. Retirement benefits

(a) Overall

Staff employed by the Company before 1st December 2000 were offered a choice between Hong Kong's Mandatory Provident Fund ("MPF") and the defined benefits retirement schemes as described below. Since 1st December 2000, all new staff employed, unless specially approved by the Company, have been enrolled in the MPF scheme. This scheme requires both the Company and staff to contribute 5% of the staff's relevant income (capped at HK$1,000 per month).

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

Similarly, the Hong Kong Aircraft Engineering Company Retirement Scheme ("Expatriate Scheme") is for staff employed on expatriate terms. Both members and the Company contribute to the Expatriate Scheme.

TAECO's local staff are covered by a statutory scheme and a defined contribution scheme in Mainland China. Local staff of other subsidiary companies operating in Mainland China are covered by a statutory scheme. Local staff employed by Singapore HAECO Pte. Limited and HAECO Bahrain Aircraft Services Company Limited are covered by the Central Provident Fund in Singapore and the Social Insurance Fund in Bahrain respectively.

Both the Local Scheme and the Expatriate Scheme are valued using the projected unit credit method in accordance with Hong Kong Accounting Standard ("HKAS") 19. The principal plans are valued annually by qualified actuaries, Towers Watson Hong Kong Limited ("Towers Watson"), for funding purposes under the provisions of Hong Kong's Occupational Retirement Schemes Ordinance. For the years ended 31st December 2010 and 31st December 2011, the HKAS 19 disclosures were based on valuations prepared by Towers Watson at 31st December 2009, which were updated at 31st December 2010 and 31st December 2011 by Cannon Trustees Limited, the main administration manager of the Company's defined benefit schemes.

The retirement benefit expense/(income) recognised in the income statement as described in note 24 under principal accounting policies was as follows:

	Group	
	2011	2010
	HK$M	HK$M
Local Scheme	**12**	(11)
Expatriate Scheme	**(2)**	(4)
MPF, statutory and other defined contribution schemes	**84**	65
	94	50

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes

The amounts recognised in the consolidated income statement were as follows:

	Group					
	Local Scheme		Expatriate Scheme		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Current service cost	**85**	82	**4**	4	**89**	86
Interest cost	**86**	89	**4**	5	**90**	94
Expected return on plan assets – gain	**(159)**	(182)	**(10)**	(13)	**(169)**	(195)
Total	**12**	(11)	**(2)**	(4)	**10**	(15)
Actual return on plan assets – (loss)/gain	**(61)**	287	**(2)**	21	**(63)**	308

The amounts recognised in the statement of financial position are as follows:

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 31st December:						
Fair value of plan assets	**2,292**	2,481	**167**	174	**2,459**	2,655
Present value of obligations	**(2,207)**	(2,010)	**(112)**	(104)	**(2,319)**	(2,114)
Net assets	**85**	471	**55**	70	**140**	541
Net unrecognised actuarial losses/(gains)	**178**	(225)	**2**	(15)	**180**	(240)
Net retirement benefit assets	**263**	246	**57**	55	**320**	301

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Assets at 1st January	**246**	221	**55**	51	**301**	272
Increase due to:						
Total (expense)/income – as shown above	**(12)**	11	**2**	4	**(10)**	15
Contributions paid	**29**	14	**–**	–	**29**	14
Assets at 31st December	**263**	246	**57**	55	**320**	301

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

Principal actuarial assumptions for the year:

	Group and Company			
	Local Scheme		Expatriate Scheme	
	2011	2010	**2011**	2010
Discount rate	**3.96%**	4.40%	**3.96%**	4.40%
Expected rate of return on plan assets	**6.50%**	8.00%	**6.00%**	8.00%
Expected rate of future salary increases	**3.86%**	3.61%	**3.50%**	3.01%

The expected return on plan assets reflects the portfolio mix of assets, which itself is determined by the Group's current investment policy. Expected returns on equities and bonds reflect long-term real rates of return in the respective markets.

The movement in the fair value of plan assets of the year is as follows:

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,481**	2,312	**174**	166	**2,655**	2,478
Employer contributions	**29**	14	**–**	–	**29**	14
Employee contributions	**–**	–	**2**	2	**2**	2
Expected return	**159**	182	**10**	13	**169**	195
Benefits paid	**(157)**	(132)	**(7)**	(15)	**(164)**	(147)
Actuarial (losses)/gains	**(220)**	105	**(12)**	8	**(232)**	113
At 31st December	**2,292**	2,481	**167**	174	**2,459**	2,655

The movement in the present value of defined benefit obligation of the year is as follows:

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,010**	1,924	**104**	107	**2,114**	2,031
Employee contributions	**–**	–	**2**	2	**2**	2
Current service cost	**85**	82	**4**	4	**89**	86
Interest cost	**86**	89	**4**	5	**90**	94
Benefits paid	**(157)**	(132)	**(7)**	(15)	**(164)**	(147)
Actuarial losses	**183**	47	**5**	1	**188**	48
At 31st December	**2,207**	2,010	**112**	104	**2,319**	2,114

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The major categories of plan assets are as follows:

	Group and Company							
	Local Scheme				Expatriate Scheme			
	2011	**2011**	2010	2010	**2011**	**2011**	2010	2010
	HK$M	**%**	HK$M	%	**HK$M**	**%**	HK$M	%
Equities	**899**	**39%**	1,802	73%	**50**	**30%**	121	70%
Bonds	**1,328**	**58%**	674	27%	**112**	**67%**	53	30%
Cash and others	**65**	**3%**	5	–	**5**	**3%**	–	–
Total	**2,292**	**100%**	2,481	100%	**167**	**100%**	174	100%

Allowing for current market conditions, a range of potential returns may be expected for the Schemes' invested assets. Based on the Schemes' benchmark asset allocation of 40% in equities and 60% in bonds and cash for Local Scheme, and 30% in equities and 70% in bonds and cash for Expatriate Scheme, and allowing for administration fees and other expense charged to the Schemes, the Company has decided to adopt a long-term return of 6.5% per annum for Local Scheme and 6.0% per annum for Expatriate Scheme.

Expected employer contributions for the year ending 31st December 2012 are HK$31 million for Local Scheme and nil for Expatriate Scheme.

Amounts for the current and previous four periods are as follows:

	Group and Company				
	Total				
	2011	2010	2009	2008	2007
	HK$M	HK$M	HK$M	HK$M	HK$M
Fair value of plan assets	**2,459**	2,655	2,478	1,877	3,039
Present value of defined benefit obligations	**(2,319)**	(2,114)	(2,031)	(1,905)	(2,334)
Surplus/(deficit)	**140**	541	447	(28)	705
Experience (losses)/gains on plan liabilities	**(19)**	31	(26)	11	(11)
Experience (losses)/gains on plan assets	**(232)**	113	499	(1,251)	288

19. Deferred taxation

The movements on deferred income tax assets and liabilities, without taking into consideration the offsetting balances within the same tax jurisdiction, are as follows:

	Group
	HK$M
Deferred tax assets	
At 1st January 2010	39
Credited to other comprehensive income	–
At 31st December 2010	39
Credited to income statement	24
Credited to other comprehensive income	6
At 31st December 2011	**69**

19. Deferred taxation (continued)

	Group			
	Accelerated tax depreciation HK$M	Retirement benefit assets HK$M	Others HK$M	Total HK$M
Deferred tax liabilities				
At 1st January 2010	249	10	52	311
(Credited)/charged to income statement	(5)	–	13	8
At 31st December 2010	244	10	65	319
Charged/(credited) to income statement	7	16	(31)	(8)
Change in tax treatment for retirement benefits	–	23	–	23
Charged to other comprehensive income	–	–	2	2
At 31st December 2011	**251**	**49**	**36**	**336**

	Company			
	Accelerated tax depreciation HK$M	Retirement benefit assets HK$M	Others HK$M	Total HK$M
Deferred tax liabilities				
At 1st January 2010	249	10	(3)	256
(Credited)/charged to income statement	(5)	–	10	5
At 31st December 2010	244	10	7	261
Charged/(credited) to income statement	7	16	(31)	(8)
Change in tax treatment for retirement benefits	–	23	–	23
At 31st December 2011	**251**	**49**	**(24)**	**276**

Deferred tax is calculated in full on temporary differences under the liability method. The tax rate used in respect of Hong Kong deferred tax is 16.5% (2010: 16.5%). Overseas deferred tax is calculated using tax rates prevailing in the respective jurisdictions.

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$297 million (2010: HK$205 million) to carry forward against future taxable income. Tax losses of HK$46 million will expire in 2013, HK$69 million will expire in 2014, HK$59 million will expire in 2015, HK$81 million will expire in 2016 and HK$42 million have no expiry date (2010: HK$44 million in 2013; HK$66 million in 2014; HK$59 million in 2015 and HK$36 million no expiry date).

The following amounts are shown separately on the statement of financial position.

	Group	
	2011	2010
	HK$M	HK$M
Deferred tax assets:		
To be recovered after more than 12 months	**63**	36
To be recovered within 12 months	**6**	3
	69	39

19. Deferred taxation (continued)

	Group	
	2011	2010
	HK$M	HK$M
Deferred tax liabilities:		
To be settled after more than 12 months	**346**	270
To be settled within 12 months	**(10)**	49
	336	319

	Company	
	2011	2010
	HK$M	HK$M
Deferred tax liabilities:		
To be settled after more than 12 months	**288**	217
To be settled within 12 months	**(12)**	44
	276	261

20. Derivative financial instruments

	Group			
	Assets		Liabilities	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts				
– cash flow hedges	**–**	8	**–**	–
Forward foreign exchange contracts				
– not qualifying as hedges	**8**	–	**1**	–
Total	**8**	8	**1**	–
Less non-current portion				
Forward foreign exchange contracts				
– cash flow hedges	**–**	1	**–**	–
Forward foreign exchange contracts				
– not qualifying as hedges	**3**	–	**1**	–
	3	1	**1**	–
Current portion	**5**	7	**–**	–

The fair value of a derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is not more than 12 months.

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31st December 2011 were HK$1,171 million (2010: HK$212 million).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

21. Financial guarantees

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Guarantees provided in respect of bank loans of:				
Subsidiary companies	**–**	–	**716**	653
A jointly controlled company	**55**	–	**–**	–
	55	–	**716**	653

The liabilities guaranteed will mature at various dates from 2012 to 2014.

22. Stocks

Stocks are stated at the lower of cost, calculated on a weighted average basis, and net realisable value.

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Carrying amounts at net realisable value:				
Stocks	**225**	269	**199**	203

The remaining balances are carried at cost.

23. Work in progress

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
The aggregate costs incurred and recognised profits to date	**196**	175	**85**	75
Less: Progress billings	**53**	28	**20**	–
	143	147	**65**	75

24. Trade and other receivables

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Trade receivables – in HK dollars	**48**	57	**48**	57
– in US dollars	**364**	291	**142**	161
– in other currencies	**38**	42	**–**	–
	450	390	**190**	218
Less: Provision for impairment of receivables	**(5)**	–	**(5)**	–
	445	390	**185**	218
Amounts due from subsidiary companies	**–**	–	**190**	145
Amounts due from jointly controlled companies	**113**	52	**22**	17
Amounts due from related parties	**183**	101	**115**	60
Interest-bearing advance to a subsidiary company at 1.83%	**–**	–	**179**	–
Other receivables and prepayments	**252**	197	**118**	132
	993	740	**809**	572

The fair values of trade and other receivables are not materially different from their book values. The amounts due from and advances to subsidiary companies, jointly controlled companies and related parties are unsecured. The balances are interest free and on normal trade credit terms with the exception of the advances to a subsidiary company which is interest-bearing as specified above and repayable within one year.

The analysis of the age of trade receivables at year-end is as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Current	**251**	166	**81**	93
Up to 3 months overdue	**167**	132	**99**	65
3 to 6 months overdue	**14**	15	**7**	1
Over 6 months overdue	**18**	77	**3**	59
	450	390	**190**	218

At 31st December 2011, trade receivables of the Group and the Company of HK$5 million (2010: nil) were considered impaired and provided for. The impaired trade receivables relate to customers which are in unexpectedly difficult financial situations. The ageing of these receivables is as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
3 to 6 months overdue	**4**	–	**4**	–
Over 6 months overdue	**1**	–	**1**	–
	5	–	**5**	–

24. Trade and other receivables (continued)

Movements on the Group's provision for impairment of trade receivables are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
At 1st January	**–**	2	**–**	2
Provision for impairment of receivables	**5**	–	**5**	–
Unused amounts reversed	**–**	(2)	**–**	(2)
At 31st December	**5**	–	**5**	–

The creation and release of the provision for impaired receivables has been included in cost of direct material and job expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional settlement.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

25. Trade and other payables

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Trade payables	**88**	71	**32**	25
Amounts due to subsidiary companies	**–**	–	**10**	5
Amounts due to jointly controlled companies	**1**	3	**–**	–
Amounts due to related parties	**41**	17	**35**	16
Interest-bearing advance from a related party at 1.83%	**24**	–	**–**	–
Accrued capital expenditure	**94**	29	**10**	10
Accruals	**700**	635	**421**	427
Other payables	**209**	217	**89**	93
	1,157	972	**597**	576

The analysis of the age of trade payables at year-end is as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Current	**75**	67	**28**	25
Up to 3 months overdue	**12**	4	**4**	–
3 to 6 months overdue	**1**	–	**–**	–
	88	71	**32**	25

The fair values of trade payables and other payables are not materially different from their book values.
The amounts due to subsidiary companies, jointly controlled companies and related parties are unsecured.
The balances are interest free and on normal trade credit terms with the exception of the advance from a related party, which is interest-bearing as specified above and repayable within one year.

26. Borrowings

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Short-term loans – in HK dollars	**120**	92	**–**	–
– in US dollars	**34**	128	**–**	–
– in other currency	**–**	3	**–**	–
	154	223	**–**	–
Long-term loans at amortised cost				
– in HK dollars	**303**	204	**198**	100
– in US dollars	**993**	1,001	**–**	–
	1,296	1,205	**198**	100
Less: amounts due within one year included under current liabilities				
– in HK dollars	**205**	–	**100**	–
– in US dollars	**798**	639	**–**	–
	293	566	**98**	100

All the loans are unsecured. The carrying amounts approximate their fair values.

The maturity of long-term loans at 31st December is as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Bank loans:				
Repayable within one year	**1,003**	639	**100**	–
Repayable between one and two years	**10**	566	**–**	100
Repayable between two and five years	**283**	–	**98**	–
	1,296	1,205	**198**	100

The exposure of the Group's loans to interest rate changes and the contractual repricing dates at 31st December is as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
6 months or less	**1,450**	1,428	**198**	100

The Group's and Company's weighted average effective interest rates per annum at 31st December 2011 are 1.46% (2010: 1.35%) and 0.93% (2010: 1.12%) respectively.

27. Share capital

	Company			
	2011		2010	
	Number of shares	**HK$M**	Number of shares	HK$M
Authorised:				
Ordinary shares of HK$1.00 each				
At 31st December	**210,000,000**	**210**	210,000,000	210
Issued and fully paid:				
Ordinary shares of HK$1.00 each				
At 31st December	**166,324,850**	**166**	166,324,850	166

During the year, the Company did not purchase, sell or redeem any of its shares.

28. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Group										
At 1st January	**5,336**	4,980	**19**	19	**38**	11	**4**	1	**5,397**	5,011
Profit for the year	**821**	701	**–**	–	**–**	–	**–**	–	**821**	701
Other comprehensive income										
Cash flow hedges										
– recognised during the year	**–**	–	**–**	–	**–**	–	**–**	3	**–**	3
– deferred tax	**–**	–	**–**	–	**–**	–	**1**	–	**1**	–
– transferred to other net gains	**–**	–	**–**	–	**–**	–	**(5)**	–	**(5)**	–
Share of other comprehensive income of a jointly controlled company	**–**	–	**–**	–	**–**	–	**(2)**	–	**(2)**	–
Net translation differences on foreign operations	**–**	–	**–**	–	**110**	27	**–**	–	**110**	27
Total comprehensive income for the year	**821**	701	**–**	–	**110**	27	**(6)**	3	**925**	731
Change in tax treatment for retirement benefits	**(23)**	–	**–**	–	**–**	–	**–**	–	**(23)**	–
Previous year's final dividend paid	**(274)**	(249)	**–**	–	**–**	–	**–**	–	**(274)**	(249)
Current year's interim dividend paid	**(116)**	(75)	**–**	–	**–**	–	**–**	–	**(116)**	(75)
Change in composition of Group (note 34)	**–**	(21)	**–**	–	**–**	–	**–**	–	**–**	(21)
At 31st December	**5,744**	5,336	**19**	19	**148**	38	**(2)**	4	**5,909**	5,397

28. Reserves (continued)

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Company										
At 1st January	**3,884**	3,511	**19**	19	**–**	–	**–**	–	**3,903**	3,530
Total comprehensive income for the year	**828**	697	**–**	–	**–**	–	**–**	–	**828**	697
Change in tax treatment for retirement benefits	**(23)**	–	**–**	–	**–**	–	**–**	–	**(23)**	–
Previous year's final dividend paid	**(274)**	(249)	**–**	–	**–**	–	**–**	–	**(274)**	(249)
Current year's interim dividend paid	**(116)**	(75)	**–**	–	**–**	–	**–**	–	**(116)**	(75)
At 31st December	**4,299**	3,884	**19**	19	**–**	–	**–**	–	**4,318**	3,903

The Group and Company revenue reserves include HK$882 million (2010: proposed final dividend of HK$274 million) representing the second interim dividend and special dividend declared for the year (note 11).

During the year, 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 was changed from US dollar to Renminbi. The resulting foreign exchange translation differences since the date of the change have been recorded in the exchange translation reserve.

29. Non-controlling interests

	Group	
	2011	2010
	HK$M	HK$M
At 1st January	**921**	964
Share of profit for the year	**55**	22
Share of cash flow hedge reserve	**(3)**	2
Share of net translation differences on foreign operations	**79**	7
Share of total comprehensive income for the year	**131**	31
Acquisition of non-controlling interests in a subsidiary company	**–**	(42)
Disposal of non-controlling interests in subsidiary companies	**(5)**	–
Dividend payable	**(32)**	(32)
At 31st December	**1,015**	921

30. Receipt in advance

An advanced payment was received from Cathay Pacific Airways Limited in 2005 for storage service charges up to June 2018. At 31st December 2011, the current portion included in other payables under current liabilities is HK$11 million (2010: HK$10 million) while the non-current portion is HK$58 million (2010: HK$69 million).

31. Notes to the consolidated statement of cash flows

(a) Reconciliation of operating profit to cash generated from operations

	Group	
	2011	2010
	HK$M	HK$M
Operating profit	**532**	397
Depreciation, amortisation and impairment provision	**439**	381
Other net gains	**(23)**	(18)
Operating profit before working capital changes	**948**	760
Increase in retirement benefit assets	**(19)**	(29)
Increase in stocks and work in progress	**(9)**	(104)
Increase in trade and other receivables in relation to operating activities	**(179)**	(190)
Increase in trade and other payables in relation to operating activities	**66**	51
Decrease in receipt in advance	**(11)**	(10)
Cash generated from operations	**796**	478

(b) Analysis of deposits and bank balances at 31st December

	Group	
	2011	2010
	HK$M	HK$M
Cash and cash equivalents	**1,320**	1,098
Short-term deposits maturing after more than three months	**24**	154
	1,344	1,252

The Group's and Company's weighted average effective interest rates per annum on deposits at 31st December 2011 are 1.70% (2010: 1.14%) and 1.16% (2010: 0.26%) respectively. The deposits have an average maturity of 72 days (2010: 69 days) for the Group and 74 days (2010: 46 days) for the Company.

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2011 and 31st December 2010 is the carrying value of the bank balances and short-term deposits disclosed above.

32. Capital commitments

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for in the financial statements	**111**	303	**52**	136
Authorised by Directors but not contracted for	**444**	631	**137**	149
	555	934	**189**	285
The Group's share of capital commitments of jointly controlled companies not included above:				
Contracted but not provided for in the financial statements	**23**	29		
Authorised by Directors but not contracted for	**123**	44		

Capital commitments mainly relate to the acquisition of rotable spares and other machinery and tools.

33. Lease commitments

At 31st December 2011, the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group and the Company were as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$M	HK$M	**HK$M**	HK$M
Land and buildings				
Not later than 1 year	**110**	104	**108**	103
Later than 1 year but not later than 5 years	**414**	394	**412**	394
Later than 5 years	**2,093**	2,138	**2,093**	2,138
	2,617	2,636	**2,613**	2,635

34. Transactions with non-controlling interests

On 1st April 2010, the Company accepted an offer by Kin Kuen Development Company Limited ("Kin Kuen") to sell 2% of the registered capital of TAECO to the Company for a consideration of HK$62.4 million. On completion of the transaction on 9th September 2010, the Company's interest in TAECO increased from 56.55% to 58.55% and Kin Kuen ceased to be a shareholder of TAECO. The carrying amount of the non-controlling interest at the date of acquisition was HK$41.8 million which resulted in an excess of consideration over the share of interest acquired of HK$20.6 million. This amount has been recognised directly in equity.

The effect of this transaction with the non-controlling interests on the equity attributable to the Company's shareholders for the year ended 31st December 2010 is as follows:

	2010
	HK$M
Total comprehensive income for the year attributable to the Company's shareholders	731
Changes in equity attributable to the Company's shareholders arising from the acquisition of additional interests in a subsidiary company	(21)
	710

35. Immediate and ultimate holding company

The immediate holding company is Swire Pacific Limited, a company incorporated in Hong Kong.

The ultimate holding company is John Swire & Sons Limited, a company incorporated in England.

36. Related party and continuing connected transactions

The Group has a number of transactions with its related parties and connected persons. Details of the remuneration of key management are set out in note 6. All trading transactions are conducted in the normal course of business at prices and on terms similar to those charged to/by and contracted with other third party customers/suppliers of the Group. The aggregate transactions and balances which are material to the Group and which have not been disclosed elsewhere in the annual report are summarised below:

		Jointly controlled companies		Immediate holding company		Other related parties		Total	
	Notes	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
		HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Revenue from provision of services:									
Cathay Pacific Airways Limited Group	*a*	**–**	–	**–**	–	**2,287**	1,818	**2,287**	1,818
Other revenue	*b*	**82**	66	**–**	–	**–**	–	**82**	66
		82	66	**–**	–	**2,287**	1,818	**2,369**	1,884
Purchases:									
Costs payable to John Swire & Sons (H.K.) Limited under services agreement									
– Service fees payable during the year	*a*	**–**	–	**–**	–	**24**	19	**24**	19
– Expenses reimbursed at cost	*a*	**–**	–	**–**	–	**51**	41	**51**	41
Subtotal	*a*	**–**	–	**–**	–	**75**	60	**75**	60
– Share of administrative services		**–**	–	**–**	–	**4**	3	**4**	3
Total		**–**	–	**–**	–	**79**	63	**79**	63
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		**–**	–	**–**	–	**5**	4	**5**	4
Risk management service		**–**	–	**2**	5	**–**	–	**2**	5
Spares purchases from Cathay Pacific Airways Limited Group		**–**	–	**–**	–	**27**	20	**27**	20
Other purchases	*c*	**8**	18	**2**	–	**27**	10	**37**	28
		8	18	**4**	5	**138**	97	**150**	120

36. Related party and continuing connected transactions (continued)

Notes:

a. *These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules as detailed in note e. The other transactions are not connected transactions or continuing connected transactions which give rise to any disclosure or other obligations under Chapter 14A of the Listing Rules.*

b. *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.*

c. *Purchases from jointly controlled companies comprised mainly aircraft component overhaul charges by HAESL, and aircraft maintenance support charges from Taikoo Sichuan and STAECO.*

d. *Amounts due from and due to jointly controlled companies and other related parties at 31st December 2011 are disclosed in notes 24 and 25 to the accounts.*

e. *Continuing connected transactions during 2011:*

The Group had the following continuing connected transactions, details of which are set out below:

(a) Cathay Pacific Airways Limited ("CX")

The Company entered into a framework agreement ("Framework Agreement") with CX on 21st May 2007 for the provision of services by the Company and its subsidiaries ("HAECO Group") to the aircraft fleets of CX and its subsidiaries ("CX Group"). The services comprise line maintenance, base maintenance, comprehensive stores and logistics support, component and avionics overhaul, material supply, engineering services, inventory technical management and ancillary services at Hong Kong International Airport, Xiamen and other airports. Payment is made in cash by CX Group to HAECO Group within 30 days upon receipt of the invoice. The term of the Framework Agreement is for 10 years ending on 31st December 2016.

CX is an associate of the Company's holding company Swire Pacific Limited and therefore a connected person of the Company under the Listing Rules. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 21st May 2007 was published and a circular dated 5th June 2007 was sent to shareholders.

For the year ended 31st December 2011, the fees payable by CX Group to HAECO Group under the Framework Agreement totalled HK$2,287 million.

(b) John Swire & Sons (H.K.) Limited ("JSSHK")

Pursuant to an agreement dated 1st December 2004, as amended and restated on 18th September 2008, ("JSSHK Services Agreement") with JSSHK, JSSHK provides services to the Company and its subsidiaries. The services comprise full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may be agreed from time to time. They also include advice and expertise of the directors and senior officers of the John Swire & Sons Limited ("Swire") group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, and in procuring for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks of the Swire group. No fee is payable in consideration of such procuration obligation or such use.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and non-controlling interests after certain adjustments. The fees for each year are payable in cash in arrear in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimburses the Swire group at cost for all the expenses incurred in the provision of the services.

The current term of the JSSHK Services Agreement is from 1st January 2011 to 31st December 2013 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Swire is the ultimate holding company of Swire Pacific Limited, which owns approximately 74.99% (2010: 74.99%) of the issued capital of the Company, and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the JSSHK Services Agreement are continuing connected transactions in respect of which announcements dated 1st December 2004, 7th March 2006, 1st October 2007 and 1st October 2010 were published.

For the year ended 31st December 2011, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$24 million and expenses of HK$51 million were reimbursed at cost.

37. Principal subsidiary and jointly controlled companies at 31st December 2011

	Place of incorporation and operation	Principal activities	Issued share capital	Owned directly	Owned by subsidiary and jointly controlled companies	Attributable to the Group
Subsidiary Companies:						
HAECO ATE Component Service Limited	Hong Kong	Aircraft component repair services	Share capital of HK$2,000,000	100%	–	100%
Singapore HAECO Pte. Limited	Singapore	Line maintenance	Share capital of SGD1	100%	–	100%
Taikoo (Xiamen) Aircraft Engineering Company Limited *	Xiamen	Aircraft overhaul and maintenance	Registered capital of US$41,500,000	58.55%	–	58.55%
Taikoo Engine Services (Xiamen) Company Limited *	Xiamen	Commercial aero engine overhaul services	Registered capital of US$63,000,000	75.01%	10%	80.87%
Taikoo (Xiamen) Landing Gear Services Company Limited *	Xiamen	Landing gear repair and overhaul	Registered capital of US$13,890,000	50%	10%	55.86%
Jointly Controlled Companies:						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited *	Jinjiang	Tyre services for commercial aircraft	Registered capital of US$5,000,000	28%	9%	33.27%
Goodrich Asia-Pacific Limited	Hong Kong	Carbon brake machining and wheel hub overhaul	Share capital of HK$9,200,000	49%	–	49%
Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited *#	Xiamen	Aircraft fuel control, flight control and electrical component repairs	Registered capital of US$5,000,000	–	35%	20.49%
Honeywell TAECO Aerospace (Xiamen) Company Limited *	Xiamen	Aircraft hydraulic, pneumatic, avionic component and other aviation equipment repairs	Registered capital of US$5,000,000	25%	10%	30.86%
Hong Kong Aero Engine Services Limited	Hong Kong	Commercial aero engine overhaul services	Share capital of HK$200	45%	–	45%
Singapore Aero Engine Services Pte. Limited #	Singapore	Commercial aero engine overhaul services	Share capital of US$54,000,000	–	20%	9%
Taikoo (Shandong) Aircraft Engineering Company Limited *#	Jinan	Airframe maintenance services for narrow-body aircraft	Registered capital of RMB200,000,000	30%	10%	35.86%
Taikoo Sichuan Aircraft Engineering Services Company Limited *#	Chengdu	Line maintenance and aircraft maintenance	Registered capital of RMB60,000,000	40%	9%	45.27%
Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited *	Jinjiang	Composite material aeronautic parts/ systems repair, manufacturing and sales	Registered capital of US$11,663,163	41.8%	10.76%	48.10%
Shanghai Taikoo Aircraft Engineering Services Company Limited *#	Shanghai	Line maintenance	Registered capital of US$3,700,000	34%	15%	42.78%

Principal subsidiary and jointly controlled companies are those which, in the opinion of the Directors, materially affect the results or assets of the Group.

** Equity joint venture incorporated in Mainland China.*

 # Companies not audited by PricewaterhouseCoopers.

Principal Accounting Policies

1. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3 to the accounts.

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 HKFRS Improvement Project

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) requiries further disclosures in interim financial reports. It has had no financial impact on the Group's accounts.

The adoption of other standards, revisions, amendments and interpretations did not result in substantial changes to the Group's accounting policies and had no significant effect on the results.

The Group has not early adopted the following relevant new and revised standards, interpretations and amendments that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements	1st July 2012
HKAS 19 (revised 2011)	Employee Benefits	1st January 2013
HKAS 27 (revised 2011)	Separate Financial Statements	1st January 2013
HKAS 28 (revised 2011)	Investments in Associates and Joint Ventures	1st January 2013
HKFRS 9	Financial Instruments	1st January 2015
HKFRS 10	Consolidated Financial Statements	1st January 2013
HKFRS 11	Joint Arrangements	1st January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1st January 2013
HKFRS 13	Fair Value Measurements	1st January 2013

The amendment to HKAS 1 focuses on improving presentation of components of other comprehensive items. It requires items presented in other comprehensive income to be grouped on the basis of whether they are potentially reclassifiable to the profit or loss subsequently or not. It is not expected that this amendment will have a significant effect on the accounts.

The amendment to HKAS 19 has eliminated the corridor approach and requires all actuarial gains and losses to be recognised in other comprehensive income as they occur. It also requires immediate recognition of all past service costs and has replaced interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). Following the effective date of the amendment, the Group will not be permitted to apply the Group's current policy choice of using the corridor approach. Net assets will increase/decrease by the amount of unrecognised actuarial gains/losses at the effective date. The Group is yet to assess the full impact of the amendments.

1. Basis of preparation (continued)

HKAS 27 (revised 2011) has been amended to retain the current guidance for separate financial statements. It is not expected that this amendment will have a significant effect on the Group's results or net assets.

HKAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. It is not expected that this amendment will have a significant effect on the Group's results or net assets.

HKFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. It is not expected that this new standard will have a significant effect on the Group's results or net assets.

HKFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. It is not expected that this new standard will have a significant effect on the Group's results or net assets.

HKFRS 11 provides guidance on what constitutes a joint arrangement by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. It is not expected that this new standard will have a significant effect on the Group's results or net assets.

HKFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. It is not expected that this standard will have a significant effect on the accounts.

HKFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. It is not expected that this new standard will have a significant effect on the Group's results or net assets.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiary companies and the Group's interests in jointly controlled companies made up to 31st December.

The results of subsidiary companies are included in the consolidated income statement and non-controlling interests therein are disclosed separately as a component of the consolidated profit after tax. Results attributable to subsidiary company interests acquired or disposed of during the year are included from the date on which control is transferred to the Group or to the date that control ceases.

2. Basis of consolidation (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiary companies by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The cost of an acquisition includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary company acquired, the difference is recognised directly in the statement of comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary companies and jointly controlled companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the consolidated statement of financial position comprise the proportion of the net assets of subsidiary companies attributable to shareholders external to the Group. The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between the cost of consideration and the relevant share acquired of the carrying value of net assets of the subsidiary company is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate company, jointly controlled company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

3. Subsidiary companies

Subsidiary companies are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

In the Company's statement of financial position, its investments in subsidiary companies are stated at cost less provision for any impairment losses. Income from subsidiary companies is accounted for by the Company on the basis of dividends received and receivable.

4. Jointly controlled companies

Jointly controlled companies are those companies held for the long-term, over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and where none of the participating parties has unilateral control over the economic activity of the entity.

Investments in jointly controlled companies are accounted for using the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in jointly controlled companies over the fair value of the Group's share of the identifiable net assets acquired represents goodwill. The Group's investments in jointly controlled companies include goodwill (net of any accumulated impairment losses) arising on acquisitions.

4. Jointly controlled companies (continued)

The Group's share of its jointly controlled companies' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are included in the carrying amount of the investment. When the Group's interest, including any other unsecured receivables in a jointly controlled company is reduced to nil, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled company.

The Group recognises the disposal of an interest in a jointly controlled company when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer.

In the Company's statement of financial position, its investments in jointly controlled companies are stated at cost less provision for any impairment losses. Income from jointly controlled companies is recognised by the Company on the basis of dividends received and receivable.

5. Segment reporting

Operating segments are reported in a manner consistent with the Group's internal financial reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

6. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges. When a gain or loss on a non-monetary item is recognised directly in equity, a translation difference on that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in the income statement, any translation difference on that gain or loss is recognised in the income statement.

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(b) Income and expenses for each income statement are translated at average exchange rates; and
(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

7. Assets under operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made and due under operating leases are recognised as expenses in the income statement on a straight-line basis over the period of the lease.

8. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

All property, plant and equipment are depreciated at rates sufficient to write off their original costs to estimated residual values using the straight-line method over their anticipated useful lives in the following manner:

Buildings and building facilities	2% to 10% per annum
Equipment, plant, machinery and tools	5% to 33% per annum
Motor vehicles	20% to 25% per annum
Rotable spares	7% per annum
Assets under construction	Nil

The assets' anticipated useful lives and residual values are regularly reviewed and adjusted, if appropriate, at the period-end date to take into account operational experience and changing circumstances.

At each period-end date, both internal and external sources of information are considered to assess whether there is any indication that property, plant or equipment is impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

The gain or loss on disposal of property, plant and equipment represents the difference between the net sales proceeds and the carrying amount of the asset, and is recognised in the income statement.

9. Intangible assets

(a) Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company on consolidation at the date of acquisition. Goodwill is treated as an asset of the entity acquired and where attributable to a foreign entity will be translated at the closing rates. Goodwill on acquisitions of subsidiary companies is included in intangible assets. Goodwill on acquisitions of jointly controlled companies is included in investments in jointly controlled companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to a cash generating unit for the purpose of impairment testing. Impairment losses recognised on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

9. Intangible assets (continued)

(b) Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the acquisition of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software costs are amortised over their estimated useful life of five years.

(c) Technical licences

Separately acquired technical licences are shown at historical cost. Technical licences acquired in a business combination are recognised at fair value at the acquisition date. Technical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical licences over their estimated useful life.

(d) Development costs

Costs that are directly associated with development of an identifiable model controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the development staff costs and cost of raw materials consumed.

Development costs are amortised over their estimated useful life of ten years.

10. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation. These assets are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

11. Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

11. Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the period-end date where these are classified as non-current assets.

(c) Available-for-sale assets

Available-for-sale assets are non-derivatives investments and other assets that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are included in non-current assets unless management intends to dispose of the investment within 12 months of the period-end date.

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Available-for-sale assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other net gains" in the period in which they arise.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the period-end date.

The Group assesses at each period-end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in principal accounting policy 15.

12. Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

12. Derivative financial instruments and hedging activities (continued)

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect the surplus/deficit (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

13. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiary or jointly controlled companies to secure loans, overdrafts and other banking facilities. Since the fair values of the financial guarantees are not material, they have not been recognised in the financial statements.

14. Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost represents weighted average unit cost and net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Work in progress represents the gross amount due from customers for all contract work in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers are included within “trade and other receivables”.

15. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 3 months overdue) are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

16. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions and short-term highly liquid investments which were within three months of maturity when acquired, less bank overdrafts.

17. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

18. Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

19. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the initiation of the borrowings, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised costs, with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the period-end date.

20. Borrowing costs

Interest costs incurred are charged to the income statement except for those interest charges attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale) which are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs cease when the assets are substantially ready for their intended use.

21. Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the recognition has no impact on taxable nor accounting profit or loss, it is not recognised. Tax rates enacted or substantively enacted by period-end date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary and jointly controlled companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

22. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

23. Turnover and revenue recognition

Turnover represents the aggregated amounts invoiced to customers and changes in work in progress. Invoices are raised either on completion or on stage completion depending on the terms of individual contracts. Incomplete contract work is recognised based on a "percentage of completion method" to determine the appropriate amount. The stage of completion is measured by reference to the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Total revenue recognised for completed contracts is equal to the aggregated amounts invoiced for the contract.

Finance income is recognised on an accrual basis.

Dividend income is recognised when the right to receive payment is established.

24. Staff benefits

(a) Retirement benefits

The Company offers either Mandatory Provident Fund ("MPF") or one of two defined benefit retirement schemes to staff. The latter schemes are held under trust arrangements and actuarially valued as required on a regular basis using a prospective actuarial valuation method. They are funded in accordance with the actuarial recommendation.

The Company's contributions to the MPF are charged to the income statement as incurred. For the two defined benefit schemes, retirement benefit costs, which are assessed using the projected unit credit method, are charged to the income statement. Under this method, plan assets are measured at fair value; retirement benefit obligations are measured as the present value of the estimated future cash flows. Actuarial gains and losses to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets are recognised in the consolidated income statement over the expected average remaining service lives of the participating employees.

TAECO, TALSCO and TEXL pay contributions to the required statutory retirement scheme for their local employees. The scheme is operated by the Mainland China government. In addition, TAECO also operates a defined contribution scheme for employees who have worked for more than five years. Both the employers and the employees are required to contribute to the scheme. Contributions to the schemes are charged to the income statement in the period to which the contributions relate.

Singapore HAECO Pte. Limited pays contributions to the required statutory retirement scheme, Central Provident Fund, for its local employees. The scheme is operated by the Singapore government and contributions to the scheme are charged to the income statement in the period to which the contributions relate.

HAECO Bahrain Aircraft Services Company Limited pays contributions to the required statutory retirement scheme for its local employees. The scheme is operated by the General Organization for Social Insurance in Bahrain and contributions to the scheme are charged to the income statement in the period to which the contributions relate.

(b) Staff leave entitlements

Costs related to staff annual leave are recognised as the leave accrues to staff.

25. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statement in the period in which the dividends are approved by the Company's shareholders or Board of Directors, where appropriate.

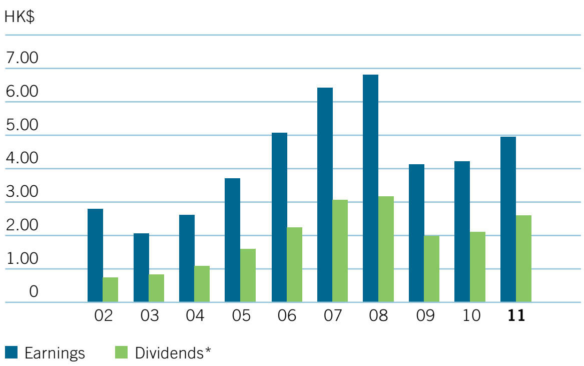
26. Related parties

Related parties are individuals and companies, including subsidiary and jointly controlled companies and key management (including close members of their families), where the individual, company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Ten-year Financial Summary

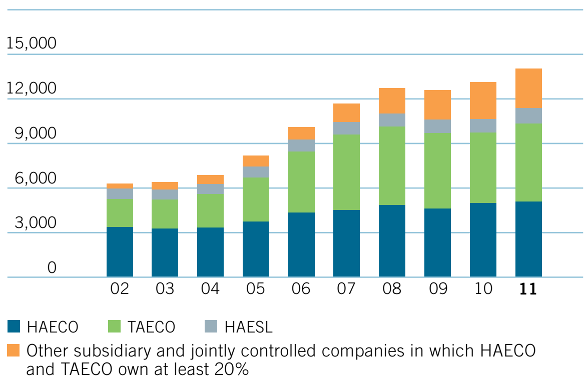
	2002	2003	2004
(in HK$ Million)			
Turnover	2,118	1,992	2,134
Net operating profit	276	104	219
Share of after-tax results of jointly controlled companies	227	263	256
Profit attributable to the Company's shareholders	465	345	438
Interim and final dividends	123	140	181
Special dividend	416	166	–
Net assets employed			
Non-current assets	1,597	1,513	3,229
Net current assets/(liabilities) excluding deposits and loans	1,145	1,159	68
Cash surplus/(Net borrowings)	440	316	476
Less: non-current liabilities excluding loans	–	–	(169)
	3,182	2,988	3,604
Financed by			
Equity attributable to the Company's shareholders	3,177	2,983	3,109
Non-controlling interests	5	5	495
	3,182	2,988	3,604
(in HK$)			
Results per share			
Earnings attributable to the Company's shareholders	2.80	2.07	2.63
Interim and final dividends	0.74	0.84	1.09
Special dividend	2.50	1.00	–
Equity attributable to the Company's shareholders	19.10	17.93	18.69
Number of staff			
HAECO	3,399	3,297	3,343
TAECO	1,870	1,927	2,250
HAESL	683	678	689
Other subsidiary and jointly controlled companies in which HAECO and TAECO own at least 20%	362	499	599
	6,314	6,401	6,881
Ratio			
Return on equity	15.8%	11.2%	14.4%
Profit margin	11.2%	4.1%	9.1%
Dividend cover – times*	3.78	2.46	2.42
Gearing ratio	–	–	–
Interest cover – times	NA	27.00	74.00
(in HK$)			
Share prices			
High	24.40	48.00	47.10
Low	11.90	20.10	32.00
Year-end	23.00	46.00	41.90
Market information			
Price/earnings – times	8.21	22.22	15.93
Market capitalisation (HK$ Million)	3,825	7,651	6,969

Earnings and Dividends Per Share*



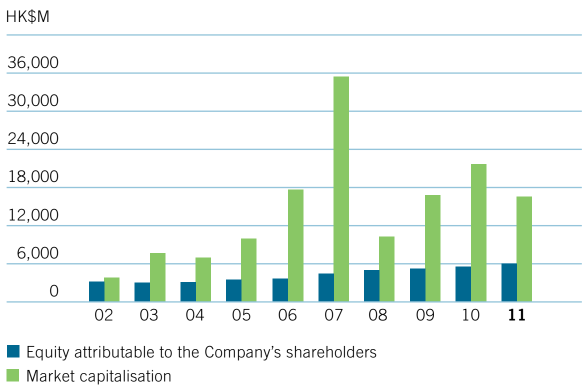
* *Dividends represent the interim and final dividends.*

Number of Staff



2005	2006	2007	2008	2009	2010	2011
3,121	3,844	4,619	4,901	4,045	4,266	5,171
508	779	1,000	1,017	380	389	525
267	330	399	462	420	407	435
618	847	1,073	1,138	688	701	821
266	374	512	529	332	349	432
–	416	–	–	–	–	566
3,495	4,063	4,716	6,227	6,789	6,902	7,315
45	(212)	(38)	(162)	(115)	146	276
877	834	767	215	(143)	(176)	(106)
(319)	(338)	(551)	(380)	(390)	(388)	(395)
4,098	4,347	4,894	5,900	6,141	6,484	7,090
3,512	3,665	4,409	4,961	5,177	5,563	6,075
586	682	485	939	964	921	1,015
4,098	4,347	4,894	5,900	6,141	6,484	7,090
3.72	5.09	6.45	6.84	4.14	4.21	4.94
1.60	2.25	3.08	3.18	2.00	2.10	2.60
–	2.50	–	–	–	–	3.40
21.12	22.04	26.51	29.83	31.13	33.45	36.52
3,757	4,356	4,523	4,861	4,621	4,967	5,102
2,945	4,098	5,086	5,268	5,094	4,739	5,240
750	805	844	908	892	901	1,023
731	859	1,245	1,701	2,008	2,471	2,689
8,183	10,118	11,698	12,738	12,615	13,078	14,054
18.7%	23.6%	26.6%	24.3%	13.6%	13.1%	14.1%
14.2%	18.2%	19.8%	18.1%	8.4%	7.4%	8.5%
2.32	2.26	2.10	2.15	2.07	2.01	1.90
–	–	–	–	2.3%	2.7%	1.5%
NA	NA	NA	NA	77.00	49.63	76.00
66.00	120.00	246.20	215.00	112.00	150.00	130.70
39.90	59.50	104.00	44.60	64.00	79.00	92.00
59.50	106.00	212.20	63.70	100.80	129.90	100.00
15.99	20.83	32.89	9.31	24.35	30.86	20.24
9,896	17,630	35,294	10,595	16,766	21,606	16,632

Equity Attributable to the Company's Shareholders and Market Capitalisation



Glossary

Terms

Net borrowings Total loans less bank deposits and bank balances.

Total equity Total of equity attributable to the Company's shareholders and non-controlling interests.

Ratios

$$\text{Dividend cover} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Interim and final dividends paid and proposed}}$$

$$\text{Earnings per share} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Gearing ratio} = \frac{\text{Net borrowings}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Operating profit}}{\text{Net finance charges}}$$

$$\text{Market capitalisation} = \text{Year-end share price} \times \text{Number of shares in issue at year-end}$$

$$\text{Price/earnings} = \frac{\text{Year-end share price}}{\text{Earnings per share}}$$

$$\text{Profit margin} = \frac{\text{Profit for the year excluding share of after-tax results of jointly controlled companies}}{\text{Turnover}}$$

$$\text{Return on equity} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Average equity during the year attributable to the Company's shareholders}}$$

Financial Calendar and Information for Investors

Financial Calendar 2012

Shares trade ex-dividend	28th March 2012
Register of members closed for second interim dividend and special dividend entitlement	30th March 2012
Annual Report available to shareholders	3rd April 2012
Payment of 2011 second interim and special dividends	24th April 2012
Register of members closed for attending and voting at Annual General Meeting	3rd – 8th May 2012
Annual General Meeting	8th May 2012
Interim results announcement	August 2012
First interim dividend payable	September 2012

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