HAECO

Hong Kong Aircraft Engineering Company Limited

annual report 2012

Stock Code: 00044

The strategic objective of HAECO is sustainable growth in shareholder value over the long term. The strategies employed in order to achieve this objective are:

Continuing to increase the range, depth and quality of aircraft engineering services offered by the HAECO Group

- We will continue to develop and enhance our technical capabilities, with the aim of meeting our customers' needs at competitive prices.
- We intend to expand our inventory and technical management services and our component repair capabilities. We intend these businesses to achieve the scale necessary to utilise fully the assets employed in them. This should enable us to earn satisfactory returns while charging competitive prices.
- We aim for the highest professional standards of work in all our businesses.
- We aim to expand geographically, by starting new operations ourselves or in joint ventures with others.

Employing staff who will be committed to HAECO for the long term and providing them with career paths and training consistent with HAECO's strategic objectives

- We aim to offer competitive remuneration and benefit packages to our staff.
- We will continue to provide high standards of staff training.
- We will continue to promote health and safety in our operations.

Maintaining and developing strategic relationships with manufacturers of aircraft and aircraft equipment

- We intend to maintain and develop strong strategic relationships with manufacturers of aircraft and aircraft equipment. We believe that this will increase the value of the services we provide to our customers.

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 modifies and completes aircraft cabins.

Line Maintenance

HAECO provides line maintenance services to over 100 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, Tianjin and Chongqing in Mainland China and at airports in Singapore and Bahrain.

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 and Singapore Aero Engine Services Pte. Limited ("SAESL") in Singapore. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") operates a GE engine overhaul facility in Xiamen, Mainland China.

One Stop Shop Services

Component and Avionics Overhaul

HAECO overhauls aircraft components and avionics in Hong Kong. The HAECO Group repairs and overhauls landing gears 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.

Inventory Technical Management and Fleet Technical Management

The HAECO Group manages component inventories for airline customers through HAECO ITM Limited ("HXITM"). The HAECO Group also provides fleet technical management, which includes the planning and control of all maintenance for a fleet of aircraft.

Financial Highlights

		2012	2011	Change
Results				
Turnover	*HK$ Million*	**5,830**	5,171	+12.7%
Net operating profit	*HK$ Million*	**477**	525	-9.1%
Share of after-tax results of jointly controlled companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	*HK$ Million*	**531**	415	+28.0%
– Other jointly controlled companies	*HK$ Million*	**33**	20	+65.0%
Profit attributable to the Company's shareholders	*HK$ Million*	**876**	821	+6.7%
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	*HK$*	**5.27**	4.94	+6.7%
Total interim dividends per share	*HK$*	**2.88**	2.60	+10.8%
Special dividend per share	*HK$*	**–**	3.40	-100.0%
Total dividends per share	*HK$*	**2.88**	6.00	-52.0%
Financial Position				
Net borrowings	*HK$ Million*	**261**	106	+146.2%
Gearing ratio	*%*	**3.7**	1.5	+2.2%pt
Total equity	*HK$ Million*	**6,993**	7,090	-1.4%
Equity attributable to the Company's shareholders per share	*HK$*	**35.21**	36.52	-3.6%
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	**684**	625	+9.4%
Net cash inflow before financing activities	*HK$ Million*	**813**	587	+38.5%

Note:
The average number of shares in issue is 166,324,850 in 2012 (2011: 166,324,850).
Additional financial information about the Group's jointly controlled companies is presented on pages 72 and 73.

Contents

Chairman's Letter

The HAECO Group reported an attributable profit of HK$876 million in 2012, 6.7% higher than that of HK$821 million in 2011. Earnings per share increased by 6.7% to HK$5.27. Turnover increased by 12.7% to HK$5,830 million.

The Directors have declared a second interim dividend (in lieu of a final dividend) of HK$2.00 per share. Together with the first interim dividend of HK$0.88 per share paid on 18th September 2012, this results in total dividends for 2012 of HK$2.88 per share. Total dividends for 2011 were HK$2.60 per share, excluding a special dividend of HK$3.40 per share. The second interim dividend, which totals HK$333 million (2011: HK$316 million), will be paid on 23rd April 2013 to shareholders on the register at the close of business on 2nd April 2013.

Demand for HAECO's airframe maintenance and line maintenance in Hong Kong was strong in 2012, although there were fewer cargo flights for which to undertake line maintenance. 4.6% more aircraft movements were handled in 2012 than in 2011. HAECO was not able to meet the demand for airframe maintenance in the second half of 2012 because of a shortage of skilled and semi-skilled labour. 1.3% fewer manhours were sold by HAECO for airframe maintenance in 2012 than in 2011. Results from Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") were adversely affected by exchange rate and deferred tax movements. Hong Kong Aero Engine Services Limited ("HAESL") and Singapore Aero Engine Services Pte. Limited ("SAESL") did well in 2012, with stronger than expected demand for engine overhaul services. The Group's joint ventures in Mainland China continued to develop technical capabilities. Output was higher, but losses continued to be incurred because of under-utilisation of facilities.

The Group continued to invest in facility expansion and technical capabilities in Hong Kong and Mainland China in order to improve and widen the range of aircraft engineering services provided to customers. Total capital expenditure for 2012 was HK$364 million with a further HK$482 million committed at the end of the year. In November 2012, HAECO and Cathay Pacific Airways Limited ("Cathay Pacific") formed a joint venture to undertake inventory technical management for Cathay Pacific, Hong Kong Dragon Airlines Limited ("Dragonair") and other airlines. During the year, TAECO started work on its first Airbus corporate jet cabin completion. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") completed six performance restorations on GE90-115B engines. The Group's interest in a line maintenance provider in Shanghai has increased from 49% to 75%. There was a fire at the premises of Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO") in November 2012. No work has been done at the premises since then and the recovery of operations is likely to take more than nine months; provisions for impairment and other losses, net of insurance receivables, of HK$4 million, have been recognised.

HAECO expects to do less airframe maintenance work in Hong Kong in 2013 than in 2012, with labour shortages restricting manhours expected to be sold in the first half to 1.2 million compared with 1.6 million in the first half of 2012. Although these labour shortages may ease in the second half of 2013, the first half shortfall is likely to have a material adverse effect on overall Group turnover and profit for the full year. Line maintenance services in Hong Kong are expected to remain stable. TAECO's airframe maintenance business is expected to improve slightly, assisted by its first Airbus corporate jet cabin completion. HAESL's performance in 2013 is expected to be adversely affected by the early retirement of some of Cathay Pacific's Boeing 747-400 aircraft and by a reduction in the required frequency of scheduled maintenance on Trent 700 engines, which power the Airbus A330 aircraft. The joint ventures in Mainland China are expected to continue to be affected by under-utilisation of facilities. The HAECO Group will continue to take measures to improve productivity in order to mitigate the effect of cost increases.

The commitment and hard work of employees of the Company and its subsidiary and jointly controlled companies are central to our continuing success. I take this opportunity to thank them.

Christopher Pratt
Chairman
Hong Kong, 12th March 2013

2012 in Review

- HAECO was named "Leading Independent MRO Organisation" at the 2012 Aviation Week MRO of the Year Awards and was voted "Best Airframe MRO Provider – Asia" at the 2012 Aircraft Technology Engineering & Maintenance Awards.

- TAECO is able to modify and complete the cabins of corporate and private jets, and work has started on the first such modification. In 2012, it modified the cabins of

Airframe Maintenance

Hong Kong
Chengdu
Jinan
Xiamen

7.4 million manhours sold in 2012

Boeing 747-400 and 767 commercial aircraft and was authorised to modify and complete the cabins of Airbus commercial and private aircraft and Boeing private aircraft.

- During 2012, TAECO obtained the following approvals in relation to airframe maintenance, so improving its capabilities and the services which it can offer to customers.

Approval authority	Aircraft type
US Federal Aviation Administration ("FAA")	Boeing 757 with RB211 engines
Civil aviation authority of Cambodia	Boeing 757
Civil aviation authority of the Philippines	Airbus A320
Civil aviation authority of Aruba	Airbus A320 and Boeing 767
Civil aviation authority of Israel	Boeing 747

- In 2012, Taikoo (Shandong) Aircraft Engineering Company Limited ("STAECO") started to offer maintenance for corporate jets in Mainland China and has obtained contracts from overseas customers. STAECO converted five Boeing 737 passenger aircraft to freighters in 2012 and has orders for three more such conversions. It performed C checks on seven aircraft, which were from Vietnam and the Republic of Korea. It obtained the following approvals in relation to airframe maintenance in 2012.

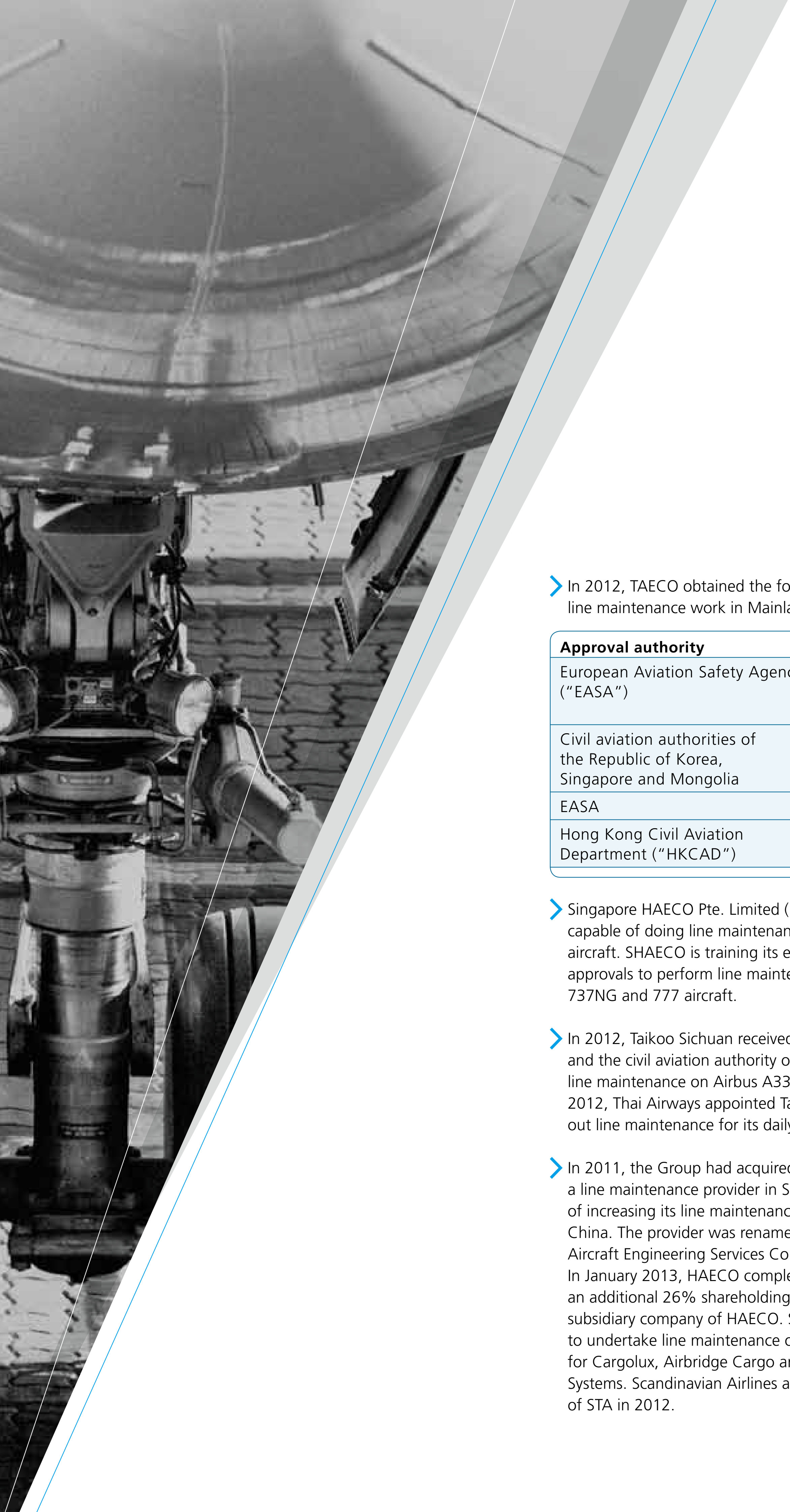
Approval authority	Aircraft type
Civil aviation authorities of Indonesia and India	Airbus A320 and Boeing 737
Civil aviation authorities of Vietnam and Russia	Airbus A320, Boeing 737, Bombardier CL-600 and CRJ-900
Civil aviation authority of Mongolia	Airbus A320 and Boeing 737
Civil Aviation Administration of China ("CAAC")	Bombardier CL-600, Global Express and Gulfstream G450 and G550

- In August 2012, Taikoo Sichuan Aircraft Engineering Services Company Limited ("Taikoo Sichuan") received approvals from the FAA to undertake airframe maintenance on Airbus A320 aircraft.

Line Maintenance

183,000 aircraft movements handled in 2012

- Hong Kong
- Beijing
- Chengdu
- Chongqing
- Jinan
- Shanghai
- Tianjin
- Xiamen
- Bahrain
- Singapore



- In 2012, TAECO obtained the following approvals to do line maintenance work in Mainland China.

Approval authority	Location
European Aviation Safety Agency ("EASA")	Shanghai and Beijing for Boeing 747-8 aircraft
Civil aviation authorities of the Republic of Korea, Singapore and Mongolia	Xiamen, Shanghai, Beijing and Tianjin
EASA	Chongqing
Hong Kong Civil Aviation Department ("HKCAD")	Chongqing

- Singapore HAECO Pte. Limited ("SHAECO") is now capable of doing line maintenance on Airbus A330 aircraft. SHAECO is training its engineers to obtain approvals to perform line maintenance work on Boeing 737NG and 777 aircraft.

- In 2012, Taikoo Sichuan received approvals from CAAC and the civil aviation authority of Thailand to undertake line maintenance on Airbus A330 aircraft. In August 2012, Thai Airways appointed Taikoo Sichuan to carry out line maintenance for its daily flights to Chengdu.

- In 2011, the Group had acquired a 49% shareholding in a line maintenance provider in Shanghai, with the aim of increasing its line maintenance activity in Mainland China. The provider was renamed Shanghai Taikoo Aircraft Engineering Services Company Limited ("STA"). In January 2013, HAECO completed the acquisition of an additional 26% shareholding in STA which became a subsidiary company of HAECO. STA has trained personnel to undertake line maintenance on Boeing 747-8 aircraft for Cargolux, Airbridge Cargo and Global Supply Systems. Scandinavian Airlines also became a customer of STA in 2012.

- In 2012, HAESL obtained approval from Rolls-Royce to repair turbine discs on Trent 700 and 800 aircraft engines and turbine stub shafts on Trent 500 engines, and to modify front fan cases on Trent 800 engines. It also installed new equipment in order to expand its component repair capabilities and to achieve improvements in productivity in component repair. Eight of HAESL's cells for performing work on aircraft engines are rated gold or silver under Rolls-Royce's centre of excellence ("COE") programme, the highest number of COE in the Rolls-Royce network of shops.

- In 2012, TEXL completed its capability development of the high pressure compressor, and quick turn capability on the low pressure turbine. TEXL continues to invest in plant, equipment and tooling in order to develop its ability to repair components for GE90-110B and GE90-115B aircraft engines.

Engine Overhaul

444 engines output in 2012

Hong Kong Xiamen Singapore

- HAECO is seeking approval from the civil aviation authority of Japan to overhaul Boeing 747 and 777 aircraft components.

- In 2012, TALSCO received approvals from CAAC, EASA and FAA to perform work on landing gear for Airbus A320 aircraft. In February 2012, TALSCO entered into a contract with China Airlines to overhaul 17 sets of landing gear for Boeing 747-400 aircraft. However, there was a fire at TALSCO's premises in November 2012. No work has been done at the premises since then and the recovery of operations is likely to take more than nine months.

- In 2012, 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 Dunlop and from EASA to retread tyres made by Bridgestone, Goodyear and Dunlop. Dunlop Taikoo has developed the capability to retread tyres for Dash 328, Dash 8-400 and Embraer aircraft. It works for customers in Mainland China, Australia and Indonesia. An additional US$2.5 million was invested in the equity of Dunlop Taikoo in 2012 in order to support the development of its capabilities.

- In 2012, Goodrich Asia-Pacific Limited ("GAP") received approval from the civil aviation authority of Japan to refurbish carbon brakes and wheel hubs. In December 2012, it started to refurbish brakes on Boeing 737-800 aircraft for a Japanese airline, Skynet Asia. GAP has the equipment to refurbish carbon brakes and wheel hubs on Boeing 747-8 and 787 aircraft and has done work on Japan Airlines' first Boeing 787 aircraft.

- In 2012, Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("Taikoo Spirit") received approvals from CAAC, FAA and EASA to repair Trent 700 nose cowls and thrust reversers, V2500 nacelles and PW4000 and CF6-80C2 thrust reversers. It purchased eight CF6-80C2 thrust reversers for use on Boeing 747 and 767 aircraft. These thrust reversers will support Taikoo Spirit's Asia Pacific business and will permit work to be done for customers of HAECO and TAECO which operate Boeing 747 and 767 aircraft.

Component and Avionics Overhaul

HK$1,203 million annual turnover

Xiamen
Jinjiang
Jinan
Hong Kong

Inventory Technical Management and Fleet Technical Management

A fleet of **230** aircraft managed

In September 2012, HAECO and Cathay Pacific announced the formation of a joint venture to undertake inventory technical management for Cathay Pacific, Dragonair and other airlines. The joint venture is conducted through HAECO ITM Limited ("HXITM"), a company incorporated in Hong Kong owned as to 70% by HAECO and 30% by Cathay Pacific. HAECO and Cathay Pacific expect to benefit from improved economies of scale through HXITM having access to and use of the aircraft components of HAECO and those of the Cathay Pacific group. The combined strengths of HAECO, a leading provider of overhaul and maintenance services for commercial aircraft, and Cathay Pacific, a leading international airline, are expected to put HXITM in a strong position to manage its relationships with suppliers and to secure potential customers for inventory technical management in the Asia Pacific region, where strong growth is expected. In January 2013, HXITM entered into an agreement with Boeing which will enable it to provide inventory technical management services for Boeing 747-8 aircraft.

Review of Operations

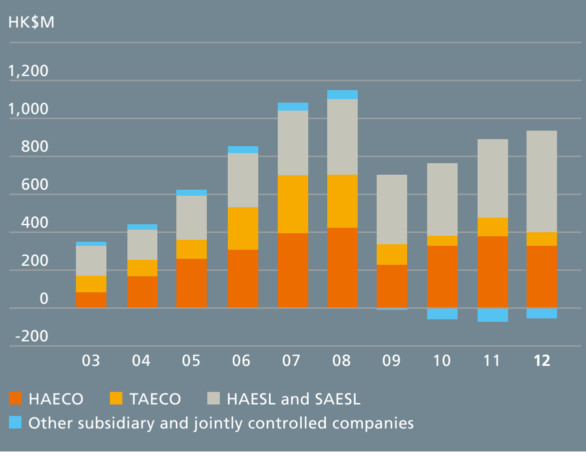
In 2012, HAECO and TAECO sold 6.4 million manhours for airframe maintenance, similar to the number sold in 2011. HAECO performed more line maintenance in Hong Kong, reflecting an increase of 4.6% in aircraft movements.

The profit attributable to the Company's shareholders comprises:

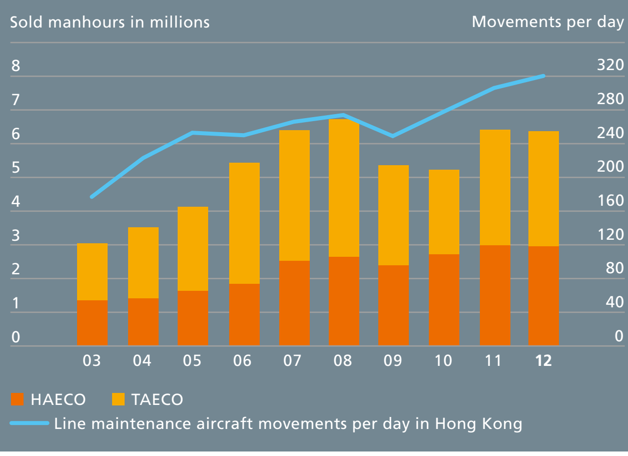
	2012 HK$M	2011 HK$M	Change
HAECO	**329**	381	-13.6%
TAECO	**70**	98	-28.6%
Share of:			
HAESL and SAESL	**531**	415	+28.0%
Other subsidiary and jointly controlled companies	**(54)**	(73)	+26.0%
	876	821	+6.7%

	2012	2011	Change
Airframe maintenance sold manhours (per year in millions)			
HAECO	**2.96**	3.00	-1.3%
TAECO	**3.42**	3.42	–
Line maintenance aircraft movements in Hong Kong (per day)	**320**	306	+4.6%

Attributable Profits by Company



Airframe Maintenance Sold Manhours and Line Maintenance Aircraft Movements



HAECO

HAECO's business (all in Hong Kong) comprises airframe maintenance, line maintenance at the passenger and cargo terminals at Hong Kong International Airport ("HKIA"), component and avionics overhaul, inventory technical management and fleet technical management.

Airframe Maintenance

HAECO performs 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 decreased from 3.00 million in 2011 to 2.96 million in 2012. Demand for HAECO's airframe maintenance services in Hong Kong was firm throughout 2012, but the Company was not able to meet this demand in the second half because of a shortage of skilled and semi-skilled labour. Approximately 76% of airframe maintenance work was for airlines based outside Hong Kong.

Line Maintenance

HAECO undertakes technical and non-technical line maintenance for airlines operating at HKIA. There was an increase in aircraft movements at HKIA in 2012 as the demand for passenger services grew despite there being fewer cargo flights. The average number of aircraft movements handled by HAECO was 320 per day in 2012, a 4.6% increase from 2011.

Component and Avionics Overhaul

HAECO overhauls components and avionics in 7,000 square metres of workshop space at Tseung Kwan O in Hong Kong. There was a slight decrease in manhours sold in 2012. Demand was firm, but HAECO could not meet it because of a shortage of labour.

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 aircraft. Since 1st November 2012, the Group's inventory technical management services have been conducted by HXITM.

HAECO employed 5,070 staff at the end of 2012, 0.6% less than at the end of 2011.

TAECO

TAECO's business is airframe maintenance, line maintenance, freighter conversions and cabin reconfigurations. TAECO's six hangars in Xiamen can accommodate 12 wide-body and five narrow-body aircraft at the same time.

Manhours sold by TAECO were 3.42 million in 2012, the same as in 2011. TAECO's hangars were generally well occupied in 2012 (except in July and August), but lower work content per aircraft resulted in less efficient use of the hangars than in 2011. Demand for cabin modifications, on Airbus A330 aircraft and on Boeing 747, 767 and 777 aircraft, was strong. Five passenger to freighter conversions were done in 2012, the same number as in 2011. Demand for conversion of wide-body passenger aircraft to freighters was weak, but that for the conversion of narrow-body (Boeing 737 and 757) passenger aircraft to freighters was strong.

TAECO undertakes line maintenance in Xiamen, Beijing and Tianjin. An average of 49 aircraft movements per day were handled in 2012, 14.0% lower than in 2011. The reduction reflected the fact that line maintenance in Shanghai (which had previously been handled by TAECO) was handled by the STA joint venture.

TAECO's revenue from technical training increased by 8.7% in 2012 from 2011.

TAECO employed 5,144 staff at the end of 2012, 1.8% less than at the end of 2011.

HAESL

HAESL (45% owned by HAECO) repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. HAESL recorded a 25.9% increase in profit in 2012 compared to 2011, reflecting an increase in the number of engines overhauled and in the amount of work done per engine. Engine output was 220, compared with 194 in 2011. Business was adversely affected by the early retirement of some old Cathay Pacific Boeing 747-400 aircraft (the Rolls-Royce engines on which would have required a lot of maintenance to keep them flying). But this was more than offset by extra business from other airlines using old engines.

The Group's share of the after-tax profit of HAESL, including that derived from HAESL's interest in SAESL, increased by 28.0% in 2012 to HK$531 million.

Other Principal Subsidiary and Jointly Controlled Companies

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

	2012	2011	Change
	HK$M	HK$M	
TEXL	**(60)**	(70)	+14.3%
TALSCO	**(21)**	(8)	-162.5%
Other subsidiary and jointly controlled companies	**27**	5	+440.0%
	(54)	(73)	+26.0%

- 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 under which it overhauls GE90 engines. It does quick turn repairs, including the replacement of outlet guide vanes and shrouds, and performance restoration for GE90-110B and GE90-115B engines. During 2012, 25 engines were inducted and work was completed on 24 engines. Quick turn repairs were done on 18 of these engines. Performance restorations were done on the other six. Revenue for 2012 increased significantly from 2011, when work was completed on only 18 engines. The loss for the year mainly reflected continued under-utilisation of facilities. Recruitment continues and at the end of December 2012, TEXL had 159 employees.
- TALSCO (owned 56.285% by HAECO and 10% by TAECO) overhauls landing gear in Xiamen. The number of landing gear sets and revenue doubled in 2012 and there were more customers. There was a fire at TALSCO's premises in November 2012. No work has been done at the premises since then and the recovery of operations is likely to take more than nine months. Provisions for impairment and other losses, net of insurance receivables, of HK$4 million, have been recognised.
- SHAECO (100% owned) undertakes line maintenance in Singapore. In 2012, revenue from existing and new customers increased. This enabled SHAECO to generate a small profit.
- Dunlop Taikoo (owned 28% by HAECO and 9% by TAECO) sells and retreads aircraft tyres at Jinjiang in Fujian Province in Mainland China. 7,677 new tyres and 7,879 retreads were sold in 2012, compared with 4,580 and 2,548 respectively in 2011. Losses decreased in 2012 as volume increased.

- GAP (49% owned) refurbishes carbon brakes and wheel hubs in Hong Kong. In 2012 the volume of work dropped slightly, resulting in a small decrease in profits.
- Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited (35% owned by TAECO) overhauls fuel control systems and pumps in Xiamen. Profits decreased significantly in 2012 due to an increase in the cost of parts.
- Honeywell TAECO Aerospace (Xiamen) Company Limited (owned 25% by HAECO and 10% by TAECO) overhauls auxiliary power units and other rotable spares. Margins and profits were substantially lower in 2012 as parts cost more.
- STAECO (owned 30% by HAECO and 10% by TAECO) undertakes 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. Profits increased in 2012 because revenue and manhours sold increased by 17.2% and 15.6% respectively. However, only five passenger to freighter conversions were completed in 2012, compared with six in 2011.
- Taikoo Sichuan (owned 40% by HAECO and 9% by TAECO) provides airframe maintenance and line maintenance for Airbus aircraft at Chengdu in Sichuan Province in Mainland China. Under-utilisation of facilities resulted in losses in 2012.
- 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. Revenue doubled and units handled tripled in 2012. This resulted in reduced losses.
- STA (owned 34% by HAECO and 15% by TAECO) provides line maintenance in Shanghai. An average of 28 aircraft movements per day were handled in 2012. Profits were satisfactory.

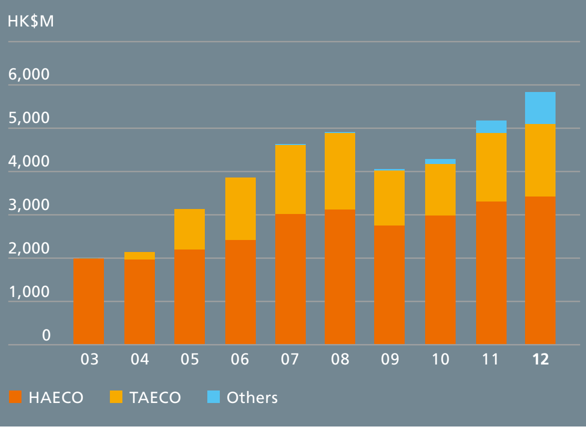
Financial Review

Turnover

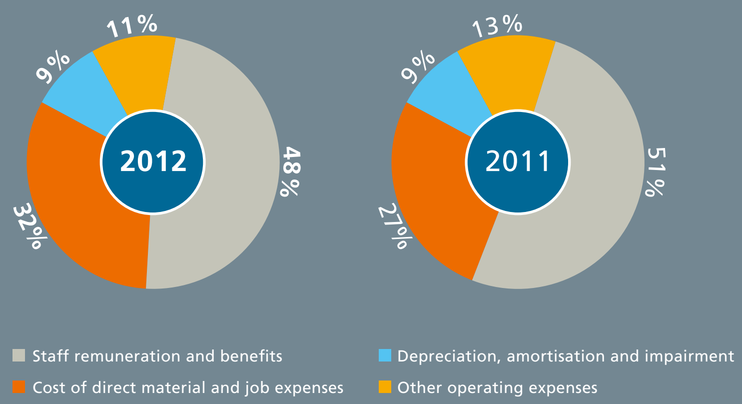
Turnover in 2012 increased by 12.7% to HK$5,830 million, with a 3.4% increase in HAECO's turnover and a 5.5% increase in that of TAECO.

	2012 HK$M	2011 HK$M	Change
HAECO	**3,421**	3,307	+3.4%
TAECO	**1,668**	1,581	+5.5%
Others	**741**	283	+161.8%
	5,830	5,171	+12.7%

Turnover



Operating Expenses



Operating Expenses

Operating expenses increased by 14.1% to HK$5,328 million.

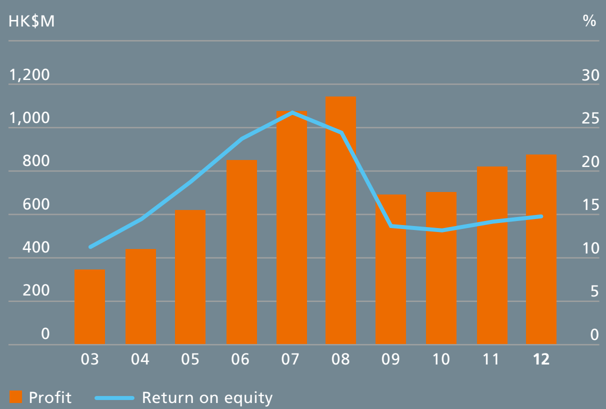
	2012 HK$M	2011 HK$M	Change
Staff remuneration and benefits	**2,551**	2,366	+7.8%
Cost of direct material and job expenses	**1,706**	1,260	+35.4%
Depreciation, amortisation and impairment	**490**	439	+11.6%
Other operating expenses	**581**	605	-4.0%
	5,328	4,670	+14.1%

Profit

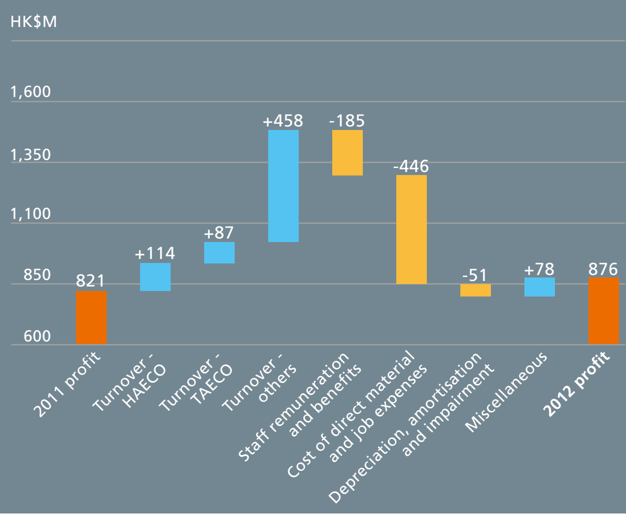
The change in profit attributable to the Company's shareholders can be analysed as follows:

	HK$M	
2011 profit	821	
Turnover		
HAECO	114	The increase principally reflects a 4.6% increase in line maintenance aircraft movements partly offset by a 1.3% decrease in airframe maintenance manhours sold. The decrease in airframe maintenance manhours reflects shortages of skilled and semi-skilled labour.
TAECO	87	The increase mainly reflects new revenue from cabin modification work.
Others	458	The increase mainly reflects a 111.1% increase in workloads at TEXL and a 113.8% increase in landing gear output at TALSCO.
Staff remuneration and benefits	(185)	The increase reflects higher salaries in Mainland China and Hong Kong and higher retirement fund expenses in Hong Kong, partially offset by the effect of a reduction in the number of skilled and semi-skilled staff in Hong Kong.
Cost of direct material and job expenses	(446)	The increase reflects an increase in business volume, mainly at TEXL, where such expenses increased by HK$359 million.
Depreciation, amortisation and impairment	(51)	The increase principally reflects a full year's depreciation of a new hangar at TAECO and the impairment of building and machinery resulting from a fire at TALSCO.
Other operating expenses	24	
Share of after-tax results of jointly controlled companies	129	The increase reflects higher profits from HAESL and SAESL.
Taxation	(48)	The increase reflects the change in tax rate at TAECO and a write-off of deferred tax assets at TALSCO.
Other items	(49)	This includes a loss on forward foreign exchange contracts at TAECO.
Non-controlling interests	22	The decrease principally reflects lower profits at TAECO.
2012 profit	876	

Profit Attributable to the Company's Shareholders



Movement of Profit Attributable to the Company's Shareholders



Assets

Total assets as at 31st December 2012 were HK$10,688 million. During the year, additions to fixed assets were HK$337 million. Included in this amount was HK$179 million spent on plant, machinery and tools and HK$70 million spent on rotable and repairable spares for inventory technical management.

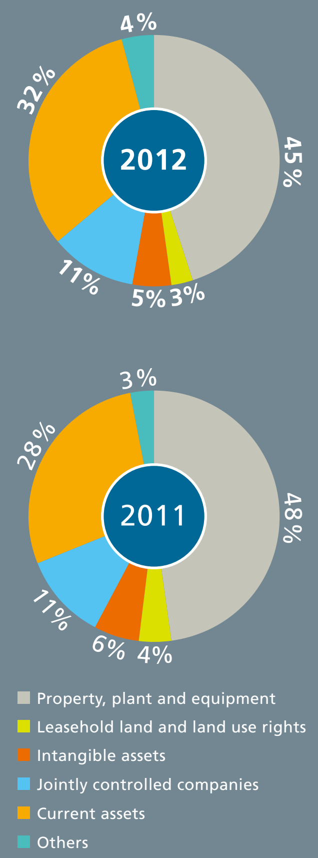
Borrowings and Financing

At 31st December 2012, the Group had net borrowings of HK$261 million (2011: HK$106 million) and a gearing ratio of 3.7%. Net borrowings consisted of short-term loans of HK$159 million and long-term loans of HK$1,525 million, net of bank balances and short-term deposits of HK$1,423 million. Borrowings are mainly denominated in US dollars and HK dollars, and are fully repayable by 2017. The increase in net borrowings mainly reflects the special dividend (of HK$566 million) paid in respect of 2011. Committed loan facilities amounted to HK$4,469 million at 31st December 2012, of which HK$3,150 million were undrawn. In addition, there were uncommitted facilities of HK$1,131 million at the same date, of which HK$752 million were undrawn.

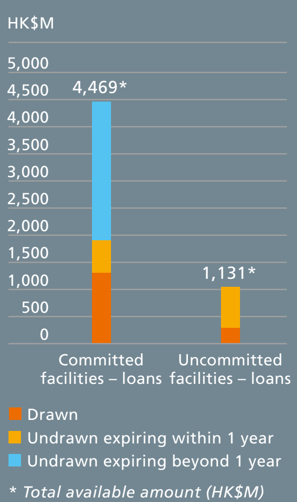
Currency Hedging

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 substantially 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 2012, TAECO had sold forward a total of US$130 million to fund part of its Renminbi requirements from 2013 to 2015. The weighted average exchange rate applicable to these forward sales was RMB6.34 to US$1.

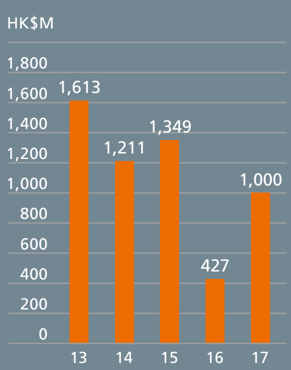
Total Assets



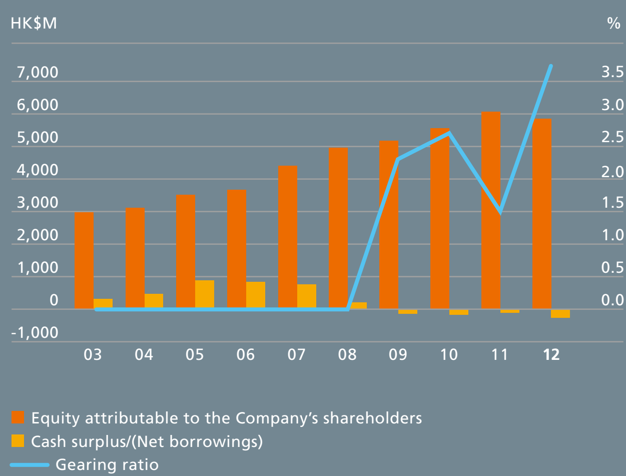
Facilities – Loan



Maturity Profile of Total Available Loan Facilities at 31st December 2012



Equity and Cash Surplus / Net Borrowings



Corporate Governance

Governance Culture

HAECO is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, HAECO believes that shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its strategies are fulfilled. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders
- that the interests of those who deal with the Company are safeguarded
- that overall business risk is understood and managed appropriately
- the delivery of high-quality products and services to the satisfaction of customers and
- that high standards of ethics are maintained

Corporate Governance Statement

The Corporate Governance Code (the "CG Code") as published by The Stock Exchange of Hong Kong Limited sets out the principles of good corporate governance and provides two levels of recommendation:

- code provisions, with which issuers are expected to comply, but with which they may choose not to comply, provided they give considered reasons for non-compliance
- recommended best practices, with which issuers are encouraged to comply, but which are provided for guidance only

The Company supports the principles-based approach of the CG Code and the flexibility this provides for the adoption of corporate policies and procedures which recognise the individuality of companies. HAECO has adopted its own corporate governance code which is available on its website **www.haeco.com**. Corporate governance does not stand still; it evolves with each business and its operating environment. The Company is always ready to learn and adopt best practices.

The Company complied with all the code provisions set out in the CG Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year covered by the annual report with the following exceptions which it believes do not benefit shareholders:

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by both the potential Director and the Board as to suitability for the role.

The Board of Directors

Role of the Board

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.

Responsibility for achieving the Company's objectives and running the business on a day-to-day basis is delegated to management. The Board exercises a number of reserved powers which include:

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements, including accounts
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates
- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of internal control and risk management, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function

To assist it in fulfilling its duties, the Board has established three committees, the Executive Committee, the Audit Committee and the Remuneration Committee. The work of these Committees is reported to the Board.

Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who run the business.

C.D. Pratt, the Chairman, is responsible for:

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda
- facilitating effective contributions from and dialogue with all Directors and constructive relations between them
- ensuring that all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed

A.K.W. Tang, the Chief Executive, is responsible for implementing the policies and strategies set by the Board in order to ensure the successful day-to-day management of the Group's business.

Throughout the year, there was a clear division of responsibilities between the Chairman and the Chief Executive.

Board Composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and individuals or groups do not dominate decision-making.

The Board comprises the Chairman, three other Executive Directors and seven Non-Executive Directors. Their biographical details are set out on pages 42 and 43 of this report and are posted on the Company's website.

C.D. Pratt, A.K.W. Tang and F.N.Y. Lung are directors and/or employees of the John Swire & Sons Limited ("Swire") group. M.B. Swire is a shareholder, director and employee of Swire.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit and Remuneration Committees of the Board comprise only Non-Executive Directors.

The Board considers that four of the seven Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules. L.K.K. Leong has served as a 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 Independent Non-Executive Directors:

- provide open and objective challenge of management and the Board members
- raise intelligent questions and challenge constructively and with vigour
- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management

The number of Independent Non-Executive Directors represented at least one-third of the Board of Directors.

Appointment and Re-election

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all Executive and Non-Executive Directors are subject to re-election for three year terms by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

Full details of changes in the Board during the year and to the date of this report are provided in the Directors' Report on page 46.

Responsibilities of Directors

On appointment, the Directors receive information about the Group including:

- the role of the Board and the matters reserved for its attention
- the role and terms of Board Committees
- the Group's corporate governance practices and procedures
- the powers delegated to management and
- the latest financial information

Directors update their skills, knowledge and familiarity with the Group through their ongoing participation at meetings of the Board and its committees and through regular meetings with management at the head office and in the divisions. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

Through the Company Secretary, Directors are able to obtain appropriate professional training and advice.

Each Director ensures that he can give sufficient time and attention to the affairs of the Group. 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 regularly.

Details of Directors' other appointments are shown in their biographies on pages 42 and 43.

Board Processes

All committees of the Board follow the same processes as the full Board.

The dates of the 2012 Board meetings were determined in 2011 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met six times in 2012. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 25. Average attendance at Board meetings was 97%. All Directors attended Board meetings in person or through electronic means of communication during the year.

Agendas and accompanying Board papers are circulated with sufficient time to allow the Directors to prepare before meetings.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole.

Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting papers, are made available to all Directors. The minutes record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and records respectively.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings.

A typical Board meeting would consist of:

- a review of a report by the Chief Executive on the results since the last meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan
- the raising of new initiatives and ideas
- the presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for Directors' consideration
- any declarations of interest.

The executive management provides the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility. Two such meetings were held in 2012.

The Chairman meets at least annually with the Non-Executive Directors without the Executive Directors being present.

	Meetings Attended/Held				Continuous Professional Development
Directors	Board	Audit Committee	Remuneration Committee	2012 Annual General Meeting	Type of Training *(Notes)*
Executive Directors					
C.D. Pratt – Chairman	6/6			√	*A, B*
M. Hayman	6/6			√	*A, B*
F.N.Y. Lung	6/6			√	*A, B*
A.K.W. Tang	6/6			√	*A, B*
Non-Executive Directors					
C.P. Gibbs	6/6			√	*A, B*
P.A. Johansen	6/6	3/3	2/2	√	*A, B*
M.B. Swire	6/6			√	*A, B*
Independent Non-Executive Directors					
R.E. Adams	5/6	3/3	2/2	√	*A, B*
L.K.K. Leong	5/6	3/3	2/2	√	*A, B*
D.C.L. Tong	6/6			√	*A, B*
P.P.W. Tse (appointed on 31st December 2012)	0/0			N/A	*B*
Average attendance	97%	100%	100%	100%	

Notes:

A: Receiving training from the Company's external legal adviser about corporate governance requirements and statutory disclosure obligations.

B: Keeping abreast of matters relevant to their role as directors by such means as attendance at seminars and conferences and reading and viewing materials about financial, commercial, economic, legal, regulatory and business affairs.

Continuous Professional Development

All Directors named above have received the training referred to above and have been provided with "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" issued by the Hong Kong Institute of Directors. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills.

Directors' and Officers' Insurance

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

Conflicts of Interest

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.

Delegation by the Board

Responsibility for delivering the Company's strategies and objectives, as established by the Board, and responsibility for day-to-day management is delegated to the Chief Executive. The Chief Executive has been given clear guidelines and directions as to his powers and, in particular, the circumstances under which he should report back to, and obtain prior approval from, the Board before making commitments on behalf of the Company.

The Board monitors management's performance against the achievement of financial and non-financial measures, the principal items monitored being:

- detailed monthly management accounts consisting of income statements and statements of financial position and cash flows compared to budget and forecast
- internal and external audit reports
- feedback from external parties such as customers, those with whom the Group does business, trade associations and service providers.

Securities Transactions

The Company has adopted a code of conduct (the "Securities Code") regarding securities transactions by Directors and officers on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. These rules are available on the Company's website.

A copy of the Securities Code has been sent to each Director of the Company and will be sent to each Director 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 the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests as at 31st December 2012 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 pages 47 to 48.

Executive Committee

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

Remuneration Committee

Full details of the remuneration of the Directors and Executive Officers are provided in note 6 to the accounts.

The Remuneration Committee comprises three Non-Executive Directors, R.E. Adams, P.A. Johansen and L.K.K. Leong. Two of the Committee Members are Independent Non-Executive Directors, one of whom, R.E. Adams, is Chairman. All the members served for the whole of 2012.

The Remuneration Committee reviews and approves the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee exercises the powers of the Board to determine the remuneration packages of individual executive directors and individual members of senior management, (including salaries, bonuses, benefits in kind and the terms on which they participate in any provident fund or other retirement benefit scheme) taking into consideration salaries paid by comparable companies, time commitments and responsibilities and employment conditions elsewhere in the group.

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG 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 and Executive Officers, are seconded to the Company. These staff report to and take instructions from the Board of the Company but remain employees of the Swire group. As a substantial shareholder of the Company, it is in the best interests 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 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. The provision of housing facilitates relocation either within Hong Kong or elsewhere in accordance with the needs of the business and as part of the training process whereby managers gain practical experience in various businesses within the Swire group, and payment of bonuses on a group-wide basis enables postings to be made to group companies with very different profitability profiles. Whilst bonuses are calculated by reference to the profits of the Swire group as a whole, those profits are influenced to an extent by the results of the Company.

Although the remuneration of these executives is not entirely linked to the profits of the Company, it is considered that this has contributed considerably to the maintenance of a flexible, motivated and high-calibre senior management team within the HAECO group. Furthermore, given its substantial equity interest in the Company, it is in the best interest of Swire to see that executives of high quality are seconded to and retained within the Company.

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

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors and Executive Officers at its meeting in November 2012. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors and Executive Officers, as disclosed in note 6 to the accounts, was comparable with that paid to equivalent executives in peer group companies.

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

The following fee levels have been approved by the Board:

	2012	2013
	HK$	HK$
Fee		
Director's Fee	345,000	345,000
Fee for Audit Committee Chairman	120,000	120,000
Fee for Audit Committee Member	90,000	90,000
Fee for Remuneration Committee Chairman	46,000	46,000
Fee for Remuneration Committee Member	35,000	35,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

- the proper stewardship of the Company's affairs, to ensure the integrity of financial information
- preparing annual and interim accounts and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable; and
- ensuring that the application of the going concern assumption is appropriate

Internal Controls

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's system of internal controls with a view to ensuring that shareholders' investments and the Company's assets are safeguarded. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed from pages 30 to 32.

The foundation of a strong system of internal control is dependent on the ethics and culture of the organisation, the quality and competence of its personnel, the direction provided by the Board, and the effectiveness of management.

Since profits are, in part, the reward for successful risk taking in business, the purpose of internal controls is to help manage and control, rather than eliminate, risk. Consequently internal controls can only provide reasonable, and not absolute, assurance against misstatement or loss.

The key components of the Group's control structure are as follows:

Culture: The Board believes that good governance reflects the culture of an organisation. This is more significant than any written procedures.

The Company aims at all times to act ethically and with integrity, and to instil this behaviour in all its employees by example from the Board down. The Company has a Code of Conduct, which is posted on its internal intranet site.

The Company is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Group, a thorough understanding of the Company's ways of thinking and acting.

Channels of communication are clearly established, allowing employees a means of communicating their views upwards with a willingness on the part of more senior personnel to listen. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause.

Through the Company's Code of Conduct, employees are encouraged (and instructed as to how) to report control deficiencies or suspicions of impropriety to those who are in a position to take necessary action.

Risk assessment: The Board of Directors and the management each have a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated.

Management structure: The Group has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and monitoring of risk. Individuals appreciate where they will be held accountable in this process.

A control self-assessment process requires management to assess, through the use of detailed questionnaires, the adequacy and effectiveness of controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This process and its results are reviewed by internal auditors and form part of the Audit Committee's annual assessment of control effectiveness.

Controls and review: The control environment comprises policies and procedures intended to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap between them. The typical control activities include:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities
- information-processing: performing controls intended to check the authorisation of transactions and the accuracy and completeness of their reporting, for example, exception reports
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subjected to periodic checks
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary
- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimising the risk of errors and abuse.

The Company has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and time-frame intended to ensure that staff carry out their designated responsibilities.

Internal audit: Independent of management, the Internal Audit department reports directly to the Chairman and performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on pages 32 and 33.

Audit Committee

The Audit Committee, consisting of three Non-Executive Directors, L.K.K. Leong, R.E. Adams and P.A. Johansen, assists the Board in discharging its responsibilities for corporate governance and financial reporting. Two of the Committee members are Independent Non-Executive Directors, one of whom, L.K.K. Leong is Chairman. All the members served for the whole of 2012.

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

The Audit Committee met three times in 2012. Regular attendees at the meetings were the Director Finance, the Head of Internal Audit of the Swire group and the external auditors. The Audit Committee meets at least twice a year with the external auditors without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2012 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2011 annual and 2012 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's internal controls and risk management systems and its compliance with the CG Code
- the Group's risk management processes
- the approval of the 2013 annual Internal Audit programme and review of progress on the 2012 programme
- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on pages 33 and 34
- the Company's compliance with the CG Code, in particular with the amendments which came into effect on 1st April 2012.

In 2013, the Committee has reviewed, and recommended to the Board for approval, the 2012 accounts.

Assessing the Effectiveness of Internal Controls

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's systems of internal controls dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's monitoring of risks and of the systems of internal control, the work of Internal Audit and the assurances provided by the Director Finance
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed

- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or position
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit
- work programmes proposed by both Internal Audit and the external auditors
- significant issues arising from internal and external audit reports
- the results of management's control self assessment exercise.

As a result of the above review, the Board confirms that the Group's internal control systems are adequate and effective and have complied with the CG Code provisions on internal control throughout the year and up to the date of this annual report.

Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. The Company Secretary undertakes at least 15 hours of relevant professional training annually to update his skills and knowledge.

Internal Audit Department

The Swire group has had an Internal Audit Department ("IA") in place for 17 years. IA plays a critical role in monitoring the governance of the Group. The department is staffed by 21 audit professionals and conducts audits of the Group and of other companies in the Swire group. The 21 professionals include a team based in Mainland China which reports to IA in Hong Kong.

IA reports directly to the Chairman of the Board and, without the need to consult with management, to the Chairman of the Audit Committee and via him to the Board. IA has unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting its work.

The annual IA work plan and resources are reviewed and agreed with the Audit Committee.

Scope of Work

Business unit audits are designed to provide assurance that the internal control systems of the Company are implemented properly and operating effectively, and that the risks associated with the achievement of business objectives are being properly identified, monitored and managed.

The frequency of each audit is determined by IA using its own risk assessment methodology, which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, considering such factors as recognised risks, organisational change, overall materiality of each unit, previous IA results, external auditors' comments, output from the work of the Swire Pacific Group Risk Management Committee and management's views. Each business unit is typically audited at least once every three years. Acquired businesses would normally be audited within 12 months. Seven assignments were conducted for HAECO in 2012.

IA specifically assists the Audit Committee in assessing the effectiveness of the Group's internal controls through its review of the process by which management has completed the annual Control Self Assessment, and the results of this assessment.

IA conducts ad-hoc projects and investigative work as may be required by management or the Audit Committee.

Audit Conclusion and Response

Copies of IA reports are sent to the Chairman of the Board, the Chief Executive, the Director Finance and the external auditors. The results of each review are also presented to the Audit Committee.

Management is called upon to present action plans in response to IA's recommendations. These are agreed by IA, included in its reports and followed up with a view to ensuring that they are satisfactorily undertaken.

External Auditors

The Audit Committee acts as a point of contact, independent from management, with the external auditors (the "auditors"). The auditors have direct access to the Chairman of the Audit Committee, who meets with them periodically without management present.

The Audit Committee's duties in relation to the auditors include:

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual accounts
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors
- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided, with a view to ensuring that their independence and objectivity is not, and is not seen to be, compromised
- approval of audit and non-audit fees.

Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work and the nature of the non-audit work) at a meeting of the Audit Committee.

Provision of Non-audit Services

In deciding whether the auditors should provide non-audit services the following key principles are considered:

- the auditors should not audit their own firm's work
- the auditors should not make management decisions
- the auditors' independence should not be impaired
- quality of service.

In addition, any services which may be considered to be in conflict with the role of the auditors must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

The fees in respect of audit and non-audit services provided to the Group by the external auditors for 2012 amounted to approximately HK$3.1 million and HK$0.3 million respectively. The non-audit services mainly consist of assurance and tax advisory services.

Shareholders

Communication with Shareholders and Investors

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company.

The principal methods used to communicate with shareholders include the following:

- The Director Finance makes herself available for meetings with major shareholders, investors and analysts over two-month periods immediately after the announcement of the interim and annual results and at certain other times during the year. In addition, the Director Finance attended regular meetings with analysts and investors in Hong Kong and analyst briefings during the year.
- Through the Company's website. This includes electronic copies of financial reports, audio webcasts of analyst presentations given at the time of the interim and annual results announcements, slides of presentations given at investor conferences, latest news, public announcements and general information about the Group's businesses
- Through publication of interim and annual reports
- Through the Annual General Meeting as discussed below.

Shareholders may send their enquiries and concerns to the Board by post or email at ir@haeco.com. The relevant contact details are set out in the Financial Calendar and Information for Investors section of this Annual Report.

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 8th May 2012. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 25.

At the Annual General Meeting, separate resolutions were proposed for each issue and were voted on by poll. The procedures for conducting a poll were explained at the meeting prior to the polls being taken. The agenda items were:

- receiving the report of the Directors and the audited accounts for the year ended 31st December 2011
- re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share repurchases
- a general mandate authorising the Directors to allot and issue shares up to 20% of the then issued share capital, provided that the aggregate nominal amount of the shares of any class so allotted wholly for cash would not exceed 5% of the aggregate nominal amount of the shares then in issue.

Minutes of the meeting together with voting results are available on the Company's website.

Shareholder engagement

Pursuant to Article 95 of the Company's Articles of Association, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination at the registered office of the Company within the 7-day period commencing on and including the day after the despatch of the notice of the meeting. The procedures for nominating candidates to stand for election as Directors at general meetings are set out in the Corporate Governance Section of the Company's website.

If they wish to propose a resolution relating to other matters to be considered at a general meeting, shareholders are requested to follow the requirements and procedures set out in the Corporate Governance Section of the Company's website.

Shareholder(s) holding not less than one-fortieth of the total voting rights of all members may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office. Detailed requirements and procedures are set out in the Corporate Governance Section of the Company's website.

Other information for shareholders

Key shareholder dates for 2013 are set out on page 107 of this report.

No amendment has been made to the Company's Articles of Association during the year.

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 deal appropriately with environmental, health and safety, employment, community and supplier matters. 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 minimise the impact of its operations on the environment. Its facilities incorporate systems intended to reduce the effect of effluents on the environment. It has a programme to reduce energy and resource usage, and to recycle waste where practicable.

Reducing greenhouse gas emissions is a key environmental objective for the Group. HAECO aims to save on average 200,000 kWh each year in electricity consumption. In 2012, this objective was achieved through, among other things:

- carrying out an energy saving study with a view to making an energy saving plan;
- replacing metal halide hangar ceiling lights with LED floodlights, which use 60% less electricity;
- replacing T8 lighting with LED lighting; and
- using occupancy sensitive LED tubes on a trial basis.

Old metal halide lamp (right), new LED light (left)

Different types of T8 size 4 foot LED tubes

HAESL improved air conditioning control and its building management system during its Phase 5 building expansion. Defective points in the system were reduced. Fresh air is controlled better. Energy is saved by adjusting chiller loads.

TAECO installed about 7,800 square metres of solar panels on the roofs of hangars and other buildings. Solar energy generated by these solar panels is capable of generating 1.39 million kilowatt-hours of electricity annually and reducing annual carbon emissions by approximately 1,000 tonnes.

In 2012, the Group emitted 83,913 tonnes of CO_2 equivalent, a 6% increase as compared to 2011.

The Group's other environmental activities in 2012 included the following:

- HAECO collected 68,031 kilograms of waste food as part of the Airport Authority of Hong Kong's food waste recycling scheme. The food waste was given to a fish stock recycling plant. HAESL started to explore the use of biofuel in engine testing;
- TAECO supported Xiamen University in building a Marine Research Station, which will monitor the responses of marine ecosystems to climate and other environmental changes.

HAECO was awarded a bronze medal at the 2012 Hang Seng Pearl River Delta Environmental Awards for its excellent contribution to the environment.

Solar panels at TAECO

Food Waste Recycled

160,701 kg

Carbon Intensity*

2012	2011
6.71	6.97

4% Reduction

**Carbon Intensity is measured in terms of kilograms of carbon emission per manhour sold*

Lost Time Injury Rate

2012	2011
1.74	2.18

20% Reduction

Ear protection during operation at ramp

Over
690,000
Training Hours

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 2012, HAECO checked temperatures inside aircraft cabins with a view to avoiding employees suffering from heat stroke in hot weather.

HAESL protects the eyes of its staff by providing them with prescription safety glasses, more than 300 pairs so far.

TAECO has assessed the effect of its occupational hazard controls and does annual occupational health surveys on a sample basis.

HAECO is organising its hangars and workshops with safety considerations in mind. A group formed for the purpose is trying to reduce time lost through injuries. Senior managers raise awareness of safety issues observed when walking round HAECO's premises.

HAESL has introduced programme intended to reduce injuries which happen when staff are operating machines. Eighty-six machines have been identified as being in need of additional safety guards. Thirty two of them have been dealt with.

TAECO conducted campaigns intended to eliminate injuries which happen when aircraft are being docked and to improve the way in which personal protection equipment is used.

The Group's other initiatives in 2012 intended to improve health and safety included:

- HAECO cooperating with the Airport Authority in an effort to improve safety on ramps;
- HAESL producing safety videos and booklets; and

Technical training at Xiamen

Dragon boat racing at Discovery Bay, Lantau Island

- TAECO providing training intended to stop employees from falling when working on elevated structures.

The Group's lost time injury rate (the number of instances of time being lost as a result of injury per 200,000 hours worked) fell by 20% from 2011 to 2012.

Employees

The Group recognises that the development of its staff is key to the sustainable development of its business. It emphasises supporting, rewarding and motivating its staff. It recruits on line, at job fairs and by referrals. It reviews its remuneration policies regularly with a view to recruiting and retaining high quality staff.

The Group is committed to providing equal opportunities for it employees. Its aim is 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.

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 2012, of which 6,348 are in Hong Kong, including 5,070 in HAECO. The staff numbers at the end of 2012 and 2011 are further analysed below.

	2012	2011	Change
HAECO	5,070	5,102	-1%
TAECO	5,144	5,240	-2%
HAESL	1,165	1,023	+14%
Other subsidiary and jointly controlled companies in which HAECO and TAECO own more than 20%	2,776	2,689	+3%
	14,155	14,054	+1%

The Community

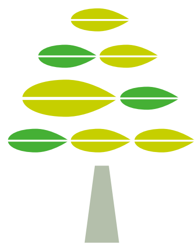
The Group is committed to maintaining good relationships with the communities in which it operates and enhancing the opportunities and lifestyle available to members of these communities, while respecting their cultures and heritage. This commitment is reflected in the Group's sponsorship and community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

HAECO's staff, who are members of the Employee Welfare Society, 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 volunteer services to the elderly.

HAECO collaborates with other organisations in the training and development of local young people who are interested in joining the aviation industry. It provides practical training opportunities to students of 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. The Company supports the Hong Kong Institution of Engineers ("HKIE") through its aircraft engineer development scheme which has attracted many people wishing to join the aviation industry. HAECO's graduate trainee

Volunteer service to elderly residents in Tung Chung



23,000
mangroves had been planted by TAECO

programme is a HKIE accredited Scheme "A" Training Programme in aircraft engineering; graduate trainees are trained under the scheme with a view to becoming members of HKIE; as well as formal training, they gain practical experience of aircraft maintenance.

TAECO's corporate social responsibility ("CSR") programmes are administered by its public affairs and corporate communication department. Over 1,100 staff participated in CSR activities organised by this committee in 2012. Working with Xiamen University's State Key Laboratory of Marine Environmental Science, TAECO started planting mangroves in 2009. By the end of 2012, approaching 23,000 mangroves had been planted in an area of 38,000 square metres along 2,500 metres of coast.

TAECO volunteers focused on environmental protection, community engagement and family support service in 2012. Children with special needs at Xiangan Special School were visited. On 31st March 2012, all TAECO employees participated in "Earth Hour" by turning lights off for one hour. Seminars were held to train volunteers to participate in CSR activities.

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

Suppliers

The Group's sustainable development policy commits it to favouring suppliers who share the same sustainability standards as the Group. The Group prefers to deal with 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 in 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.

TAECO's Marine Environmental Science (MEL) Project

Directors and Officers

Executive Directors

PRATT, Christopher Dale, CBE, aged 56, 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 Air China Limited and The Hongkong and Shanghai Banking Corporation Limited. He joined the Swire group in 1978 and has worked with the group in Hong Kong, Australia and Papua New Guinea.

TANG, Kin Wing Augustus, aged 54, 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 52, 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 46, 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 51, 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 70, has been a Director of the Company since July 1984. 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 39, 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, a Director of Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited, and an Alternate Director of Steamships Trading Company Limited.

Independent Non-Executive Directors

ADAMS, Robert Ernest, aged 69, 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 52, has been a Director of the Company since March 2003. He is also Deputy Chief Executive Officer of MTR Corporation Limited and an Independent Non-Executive Director of Mandarin Oriental International Limited.

TONG, Chi Leung David, aged 42, has been a Director of the Company since May 2006. He is also a Director of Sir Elly Kadoorie & Sons Limited and 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

TSE, Pak Wing Peter, aged 61, was appointed a Director of the Company on 31st December 2012. He is a Non-Executive Director of CLP Holdings Limited and an Independent Non-Executive Director of HSBC Bank (China) Company Limited.

Executive Officers

CHADWICK, Stephen Edward, aged 52, was appointed Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, in August 2012. He joined the Swire group in 1991 and was previously General Manager Engineering Technical of Cathay Pacific Airways Limited.

CHAN, Ching Summit, aged 47, 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.

TANG, Kwok Kit Kenny, aged 58, 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 49, has been Company Secretary since January 2006. He joined the Swire group in 1988.

Notes:
1. *The Audit Committee comprises L.K.K. Leong (committee chairman), R.E. Adams and P.A. Johansen.*
2. *The Remuneration Committee comprises R.E. Adams (committee chairman), P.A. Johansen and L.K.K. Leong.*
3. *S.C. Chan, F.N.Y. Lung, C.D. Pratt, M.B. Swire, A.K.W. Tang and K.K.K. Tang are 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 2012, which are set out on pages 51 to 103. Details of the following items are set out in the accounts as follows:

		Page
Results	Consolidated Income Statement	51
Principal activities	Note 1	57
Interest	Note 8	67
Fixed assets	Notes 13 and 14	69-71
Share capital	Note 28	85
Reserves	Note 29	85-86
Commitments	Notes 33 and 34	88
Continuing connected transactions	Note 37	89-90

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 104 and 105.

Dividends

The Directors have declared a second interim dividend of HK$2.00 per share for the year ended 31st December 2012. The second interim dividend will be in lieu of a final dividend. Together with the first interim dividend of HK$0.88 per share paid on 18th September 2012, this makes a total dividend for the year of HK$2.88 per share. This represents a total distribution for the year of HK$479 million. The second interim dividend will be paid on 23rd April 2013 to shareholders registered at the close of business on the record date, being Tuesday, 2nd April 2013. Shares of the Company will be traded ex-dividend as from Wednesday, 27th March 2013.

Closure of Register of Members

The register of members will be closed on Tuesday, 2nd April 2013 during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 28th March 2013.

To facilitate the processing of proxy voting for the annual general meeting to be held on 7th May 2013, the register of members will be closed from Thursday, 2nd May 2013 to Tuesday, 7th May 2013, 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 Tuesday, 30th April 2013.

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 37 to the accounts (the note on related party and 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 2012 are set out in note 37 to the accounts.

Major Customers and Suppliers (Significant Contracts)

67.8% of sales and 41.3% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 42.0% of sales were made to the Group's largest customers, Cathay Pacific and its subsidiary companies Dragonair and AHK Air Hong Kong Limited, while 20.0% of purchases were from the largest suppliers, General Electric Group.

In respect of the Company's transactions with Cathay Pacific and Dragonair:

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

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.

Connected Transactions

The Company entered into a joint venture agreement (the "Joint Venture Agreement") on 24th September 2012 with Cathay Pacific for the establishment of a joint venture, HXITM, to engage in the provision of inventory technical management services ("ITM Services"). Under the Joint Venture Agreement, the Company advanced an interest-free shareholder's loan of HK$210 million to HXITM in respect of its 70% shareholding in HXITM. Pursuant to the Joint Venture Agreement, HAECO sold to HXITM certain aircraft components and also transferred to HXITM its rights and obligations under its existing ITM Services contracts with customers. The total consideration for the sale of the aircraft components and the transfer of the ITM Services contracts was approximately HK$273 million.

As Cathay Pacific is an associate of Swire Pacific Limited, a substantial shareholder of the Company, Cathay Pacific is a connected person of the Company. As Cathay Pacific, a connected person of the Company at the listed company level, owns more than 10% of the voting rights in HXITM, HXITM is also a connected person of the Company. The Joint Venture Agreement therefore constituted a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 24th September 2012 was published.

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 37 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 Directors of the Company as at the date of this report are listed on pages 42 and 43. With the exception of P.P.W. Tse, who was appointed as an Independent Non-Executive Director on 31st December 2012, all the Directors at the date of this report served throughout the calendar year 2012.

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, C.P. Gibbs, P.A. Johansen, C.D. Pratt and D.C.L. Tong retire this year and, being eligible, offer themselves for re-election.

P.P.W. Tse, having been appointed to the Board under Article 91 since the last Annual General Meeting, also retires and offers himself for 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 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 or re-election. No Director has a service contract with the Company which 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

As at 31st December 2012, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Hong Kong Aircraft Engineering Company Limited and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited, Swire Pacific Limited and Swire Properties Limited:

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	*Note*
Hong Kong Aircraft Engineering Company Limited						
Ordinary Shares						
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	41,000	–	–	41,000	0.0045	
'B' shares						
P.A. Johansen	200,000	–	–	200,000	0.0067	
C.D. Pratt	100,000	–	–	100,000	0.0033	

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	*Note*
Swire Properties Limited						
Ordinary Shares						
P.A. Johansen	50,050	–	–	50,050	0.00086	
C.D. Pratt	4,200	–	–	4,200	0.00007	
M.B. Swire	–	–	138,855	138,855	0.00237	*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 138,855 shares in Swire Properties Limited and 10,766,080 ordinary shares and 3,121,716 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have any beneficial interest in those shares.*

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

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, being a contract 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 Businesses

None of the Directors or 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 2012, the Company had been notified of the following interests in the Company's shares:

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

Notes:
At 31st December 2012:

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 44.99% of the issued share capital and approximately 59.43% 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, 12th March 2013

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 51 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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, 12th March 2013

Consolidated Income Statement

for the year ended 31st December 2012

	Note	2012 HK$M	2011 HK$M
Turnover	4	**5,830**	5,171
Operating expenses:			
Staff remuneration and benefits	5	**(2,551)**	(2,366)
Cost of direct material and job expenses		**(1,706)**	(1,260)
Depreciation, amortisation and impairment	13, 14	**(490)**	(439)
Insurance and utilities		**(86)**	(131)
Operating lease rentals – land and buildings		**(172)**	(157)
Repairs and maintenance		**(142)**	(165)
Other		**(181)**	(152)
		(5,328)	(4,670)
Other net (losses)/gains	7	**(8)**	31
Operating profit		**494**	532
Finance income	8	**18**	18
Finance charges	8	**(35)**	(25)
Net operating profit		**477**	525
Share of after-tax results of jointly controlled companies	16	**564**	435
Profit before taxation		**1,041**	960
Taxation	9	**(132)**	(84)
Profit for the year		**909**	876
Profit attributable to:			
The Company's shareholders	10	**876**	821
Non-controlling interests		**33**	55
		909	876
Dividends			
First interim – paid		**146**	116
Second interim – declared		**333**	316
Special – paid		**–**	566
	11	**479**	998
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	12	**HK$5.27**	HK$4.94

The notes on pages 57 to 91 and the principal accounting policies on pages 92 to 103 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2012

	2012 HK$M	2011 HK$M
Profit for the year	909	876
Other comprehensive income:		
Cash flow hedges		
– deferred tax	–	1
– transferred to other net gains	–	(8)
Share of other comprehensive income of a jointly controlled company	3	(2)
Net translation differences on foreign operations	18	189
Other comprehensive income for the year, net of tax	21	180
Total comprehensive income for the year	930	1,056
Total comprehensive income attributable to:		
The Company's shareholders	888	925
Non-controlling interests	42	131
	930	1,056

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

The notes on pages 57 to 91 and the principal accounting policies on pages 92 to 103 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2012

	Note	2012 HK$M	2011 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*13*	**4,793**	4,893
Leasehold land and land use rights	*13*	**362**	370
Intangible assets	*14*	**528**	560
Jointly controlled companies	*16*	**1,171**	1,100
Derivative financial instruments	*20*	**2**	3
Deferred tax assets	*19*	**46**	69
Retirement benefit assets	*18*	**343**	320
Long-term prepayment		**12**	–
		7,257	7,315
Current assets			
Stocks of aircraft parts	*22*	**295**	310
Work in progress	*23*	**213**	143
Trade and other receivables	*24*	**1,497**	993
Derivative financial instruments	*20*	**3**	5
Cash and cash equivalents	*32(b)*	**1,418**	1,320
Short-term deposits	*32(b)*	**5**	24
		3,431	2,795
Current liabilities			
Trade and other payables	*25*	**1,415**	1,157
Taxation payable		**58**	18
Derivative financial instruments	*20*	**1**	–
Short-term loans	*26*	**159**	154
Long-term loans due within one year	*26*	**103**	1,003
		1,736	2,332
Net current assets		**1,695**	463
Total assets less current liabilities		**8,952**	7,778
Non-current liabilities			
Long-term loans	*26*	**1,422**	293
Receipt in advance	*31*	**48**	58
Deferred income		**10**	–
Advance from a related party	*27*	**90**	–
Put option in respect of non-controlling interest in a subsidiary company	*3(c)*	**72**	–
Deferred tax liabilities	*19*	**309**	336
Derivative financial instruments	*20*	**8**	1
		1,959	688
NET ASSETS		**6,993**	7,090
EQUITY			
Share capital	*28*	**166**	166
Reserves	*29*	**5,691**	5,909
Equity attributable to the Company's shareholders		**5,857**	6,075
Non-controlling interests	*30*	**1,136**	1,015
TOTAL EQUITY		**6,993**	7,090

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

Christopher Pratt
Lincoln Leong
Directors

Hong Kong, 12th March 2013

The notes on pages 57 to 91 and the principal accounting policies on pages 92 to 103 form part of these financial statements.

Company Statement of Financial Position

at 31st December 2012

	Note	2012 HK$M	2011 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	2,130	2,460
Leasehold land	13	15	15
Subsidiary companies	15	1,157	801
Jointly controlled companies	16	123	145
Loan due from a subsidiary company	15	210	–
Retirement benefit assets	18	343	320
		3,978	3,741
Current assets			
Stocks of aircraft parts	22	184	201
Work in progress	23	59	65
Trade and other receivables	24	740	809
Cash and cash equivalents		767	813
		1,750	1,888
Current liabilities			
Trade and other payables	25	677	597
Taxation payable		49	16
Long-term loans due within one year	26	–	100
		726	713
Net current assets		1,024	1,175
Total assets less current liabilities		5,002	4,916
Non-current liabilities			
Long-term loans	26	442	98
Receipt in advance	31	48	58
Deferred tax liabilities	19	246	276
		736	432
NET ASSETS		4,266	4,484
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	28	166	166
Reserves	29	4,100	4,318
TOTAL EQUITY		4,266	4,484

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

Christopher Pratt
Lincoln Leong
Directors

Hong Kong, 12th March 2013

The notes on pages 57 to 91 and the principal accounting policies on pages 92 to 103 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2012

	Note	2012 HK$M	2011 HK$M
Operating activities			
Cash generated from operations	*32(a)*	**792**	796
Interest paid		**(31)**	(25)
Interest received		**17**	17
Tax paid		**(94)**	(163)
Net cash generated from operating activities		**684**	625
Investing activities			
Purchase of property, plant and equipment		**(364)**	(532)
Proceeds from disposals of property, plant and equipment		**3**	3
Purchase of shares in jointly controlled companies		**(19)**	(9)
Loans to a jointly controlled company		**(33)**	(89)
Repayment of loans by jointly controlled companies		**20**	41
Dividends received from jointly controlled companies		**502**	420
Distributions to non-controlling interests on disposal of subsidiary companies		**–**	(5)
Net decrease in short-term deposits other than cash and cash equivalents		**20**	133
Net cash used in investing activities		**129**	(38)
Net cash inflow before financing activities		**813**	587
Financing activities			
Proceeds from loans		**745**	151
Repayment of loans		**(534)**	(129)
Capital contribution from non-controlling interests		**85**	–
Advance from a non-controlling interest		**90**	24
Repayment of advance from a non-controlling interest		**(24)**	–
Dividends paid to the Company's shareholders		**(1,028)**	(390)
Dividends paid to non-controlling interests		**(44)**	(33)
Net cash used in financing activities		**(710)**	(377)
Net increase in cash and cash equivalents		**103**	210
Cash and cash equivalents at 1st January		**1,320**	1,098
Currency adjustment		**(5)**	12
Cash and cash equivalents at 31st December	*32(b)*	**1,418**	1,320

The notes on pages 57 to 91 and the principal accounting policies on pages 92 to 103 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2012

	Note	Attributable to the Company's shareholders					
		Share capital	Revenue reserve	Other reserves	Total	Non-controlling interests	Total equity
		HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 1st January 2012		**166**	**5,744**	**165**	**6,075**	**1,015**	**7,090**
Profit for the year		–	876	–	876	33	909
Other comprehensive income		–	–	12	12	9	21
Total comprehensive income for the year		–	876	12	888	42	930
Put option in respect of non-controlling interest in a subsidiary company		–	(72)	–	(72)	–	(72)
Dividends paid		–	(1,028)	–	(1,028)	(12)	(1,040)
Change in composition of Group	*30, 35*	–	(6)	–	(6)	91	85
At 31st December 2012		**166**	**5,514**	**177**	**5,857**	**1,136**	**6,993**

	Note	Attributable to the Company's shareholders					
		Share capital	Revenue reserve	Other reserves	Total	Non-controlling interests	Total equity
		HK$M	HK$M	HK$M	HK$M	HK$M	HK$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	*30*	–	–	–	–	(5)	(5)
At 31st December 2011		166	5,744	165	6,075	1,015	7,090

The notes on pages 57 to 91 and the principal accounting policies on pages 92 to 103 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 91. 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 sales transactions, 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 2012, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, profit after tax for the year would have been HK$12 million (2011: HK$8 million) higher/lower, arising mainly from the net foreign exchange gains/losses caused by the monetary assets and liabilities.

(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 2011 and 2012, 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 net borrowings partially hedged by interest rate swaps.

(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.

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.

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk (continued)

When depositing surplus funds or entering into derivative contracts, the Group mitigates 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	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Guarantees provided in respect of loans of:				
Subsidiary companies	**–**	–	**710**	716
Jointly controlled companies	**68**	55	**50**	–
	68	55	**760**	716

(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 non-derivative financial liabilities and net-settled derivable financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the contractual maturity date:

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 31st December 2012					
Group					
Bank loans (including interest obligations)	**1,770**	**285**	**381**	**1,104**	**–**
Trade and other payables	**383**	**383**	**–**	**–**	**–**
Derivative financial instruments	**9**	**1**	**7**	**1**	**–**
Advance from a related party	**90**	**–**	**90**	**–**	**–**
Put option in respect of non-controlling interest in a subsidiary company	**114**	**–**	**–**	**114**	**–**
Financial guarantee contracts	**68**	**68**	**–**	**–**	**–**
	2,434	**737**	**478**	**1,219**	**–**

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2011					
Group					
Bank loans (including interest obligations)	1,468	1,169	13	286	–
Trade and other payables	363	363	–	–	–
Derivative financial instruments	1	–	–	1	–
Financial guarantee contracts	55	–	–	55	–
	1,887	1,532	13	342	–

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 31st December 2012					
Company					
Bank loans (including interest obligations)	**481**	**7**	**156**	**318**	**–**
Trade and other payables	**194**	**194**	**–**	**–**	**–**
Financial guarantee contracts	**760**	**760**	**–**	**–**	**–**
	1,435	**961**	**156**	**318**	**–**

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2011					
Company					
Bank loans (including interest obligations)	203	102	1	100	–
Trade and other payables	166	166	–	–	–
Financial guarantee contracts	716	665	5	46	–
	1,085	933	6	146	–

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 106. The gearing ratio at 31st December 2012 was 3.7% (2011: 1.5%). The increase in the gearing ratio during 2012 mainly reflects the special dividend paid.

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

Hong Kong Financial Reporting Standard ("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).

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

	Group		
	Level 2	Level 3	Total carrying amount
	HK$M	HK$M	HK$M
Assets			
At 31st December 2012			
Derivatives not qualifying as hedges	**5**	**–**	**5**
Total	**5**	**–**	**5**
At 31st December 2011			
Derivatives not qualifying as hedges	8	–	8
Total	8	–	8
Liabilities			
At 31st December 2012			
Derivatives not qualifying as hedges	**9**	**–**	**9**
Put option in respect of non-controlling interest in a subsidiary company	**–**	**72**	**72**
Total	**9**	**72**	**81**
At 31st December 2011			
Derivatives not qualifying as hedges	1	–	1
Total	1	–	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 fair value of the put option is determined using the estimated discounted cash flow which use assumptions based on the best estimates of management, which are not observable inputs.

2. Financial risk management (continued)

(c) Fair value estimation (continued)

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.

The following table presents the change in level 3 instrument:

	Group
	Total
	HK$M
Financial liabilities at fair value through profit or loss	
At 1st January 2012	–
Issuance	72
At 31st December 2012	**72**

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 below:

(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.

(c) Estimate of fair value of put option in respect of non-controlling interest in a subsidiary company

The fair value of the put option in respect of non-controlling interest in a subsidiary company is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for calculating the fair value of the put option in respect of non-controlling interest in a subsidiary company.

The fair value of the put option would have been HK$15 million lower/higher if the discount rate used in the discounted cash flow analysis had increased/decreased by 1% point.

3. Critical accounting estimates and judgements (continued)

(d) Retirement benefits

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net retirement benefit expense/income include the discount rate. The Group reviewed the discount rate at the end of each year. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

(e) Insurance receivable arisen from the fire at TALSCO

As explained on page 16 of the Review of Operations, on 10th November 2012, there was a fire at TALSCO in Xiamen. Operations have been temporarily suspended whilst the affected facility is rebuilt. The directors have assessed the carrying value of damaged property, plant and equipment and made impairment provisions where necessary. Provisions have also been made for certain costs, which meet the recognition criteria under Hong Kong Accounting Standard ("HKAS") 37, including the clean-up costs of the site, the costs of replacing the assets of TALSCO customers that were irreparably damaged by the incident, and certain consequential losses of customers.

An insurance receivable has been recorded based on the directors' best estimate of the amount which is virtually certain of being recoverable. The directors are still awaiting the final assessment from insurance companies and technical advisors. Therefore, the actual financial outcome of the incident could differ from the estimates made by the directors which would result in an impact to the income statement in future periods.

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 Executive Directors of the Board to assess performance and allocate resources. The Board considers the business primarily from an entity perspective.

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

				HAESL				
	HAECO	TAECO	TEXL	At 100%	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
Year ended 31st December 2012								
External turnover	3,421	1,668	567	12,114	(12,114)	174	–	5,830
Inter-segment turnover	53	28	–	4	(4)	16	(97)	–
Total turnover	3,474	1,696	567	12,118	(12,118)	190	(97)	5,830
Operating profit/(loss)	403	161	(64)	1,170	(1,170)	(6)	–	494
Finance income	5	13	2	–	–	–	(2)	18
Finance charges	(11)	(5)	(14)	(4)	4	(7)	2	(35)
Share of after-tax results of jointly controlled companies	–	–	–	208	323	–	33	564
Profit/(loss) before taxation	397	169	(76)	1,374	(843)	(13)	33	1,041
Taxation (charge)/credit	(68)	(45)	1	(193)	193	(16)	(4)	(132)
Profit/(loss) for the year	329	124	(75)	1,181	(650)	(29)	29	909
Depreciation and amortisation	190	153	66	88	(88)	34	–	443
Provision for impairment of stock and property, plant and equipment	19	–	–	–	–	45	–	64
Reversal of impairment of property, plant and equipment	(11)	–	–	–	–	–	–	(11)
Auditors' remuneration – statutory audit fees	2	1	–	–	–	–	–	3

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
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

	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 2012								
Total segment assets	**4,448**	**3,022**	**1,483**	**3,626**	**(3,626)**	**940**	**(407)**	**9,486**
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	**141**	**83**	**41**	**88**	**(88)**	**347**	**(275)**	**337**
Total segment liabilities	**1,462**	**744**	**896**	**1,978**	**(1,978)**	**895**	**(374)**	**3,623**

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 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

	2012	2011
	HK$M	HK$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	9,486	8,979
Unallocated: investment in jointly controlled companies	1,171	1,100
Unallocated: intangible assets – goodwill	31	31
Total assets	10,688	10,110

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

	2012	2011
	HK$M	HK$M
Reportable segments' liabilities are reconciled to total liabilities as follows:		
Total segment liabilities	3,623	3,020
Unallocated: put option in respect of non-controlling interest in a subsidiary company	72	–
Total liabilities	3,695	3,020

Transactions between segments are carried out on an arm's length basis. The turnover from external parties reported to the Executive Directors of the Board 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 Executive Directors of the Board review 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.

	2012	2011
	HK$M	HK$M
The Group's turnover derived from external customers:		
In Hong Kong	**2,536**	2,428
In other countries	**3,294**	2,743
	5,830	5,171
Total non-current assets other than financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	**2,436**	2,475
In other countries (mainly in Mainland China)	**3,259**	3,348
	5,695	5,823
Turnover in HAECO and TAECO derived from a single external customer	**2,447**	2,287

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 2012 amounted to HK$2,551 million (2011: HK$2,366 million). Of the five highest paid employees, two (2011: two) were Directors and two (2011: two) were Executive Officers whose emoluments are given in note 6. The emolument of the remaining one (2011: one) individual during the year is as follows:

	2012	2011
	HK$000	HK$000
Basic salary	**1,554**	1,484
Bonus	**545**	464
Allowances, gratuities and benefits	**2,106**	2,574
Retirement scheme contributions	**14**	12
	4,219	4,534

6. Directors' and Executive Officers' emoluments

The total number of Directors who served during the year was 11 (2011: 10) and the total number of Executive Officers who served during the year was four (2011: four). Their emoluments were as follows:

	Group							
	Cash			Non Cash				
	Basic salary/ Directors' fees (note a)	Bonus (note b)	Allowances and benefits	Retirement schemes contributions	Bonus paid to retirement schemes	Housing & other benefits	**2012 Total**	2011 Total
	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	**HK$000**	HK$000
Executive Directors:								
Christopher Pratt	622	652	36	245	202	423	**2,180**	1,756
Augustus Tang	3,030	5,012	1,445	394	–	1	**9,882**	7,857
Mark Hayman	2,093	1,490	944	–	–	17	**4,544**	4,204
Michelle Low (until 4th August 2010)	–	–	–	–	–	–	**–**	858
Fanny Lung	1,742	1,122	376	227	–	1	**3,468**	2,546
	7,487	8,276	2,801	866	202	442	**20,074**	17,221
Non-Executive Directors:								
Christopher Gibbs	–	–	–	–	–	–	**–**	–
Peter Johansen	473	–	–	–	–	–	**473**	481
Merlin Swire	–	–	–	–	–	–	**–**	–
	473	–	–	–	–	–	**473**	481
Independent Non-Executive Directors:								
Robert Adams	478	–	–	–	–	–	**478**	470
Lincoln Leong	500	–	–	–	–	–	**500**	500
Peter Tse (from 31st December 2012)	1	–	–	–	–	–	**1**	–
David Tong	345	–	–	–	–	–	**345**	345
	1,324	–	–	–	–	–	**1,324**	1,315
2012 total	**9,284**	**8,276**	**2,801**	**866**	**202**	**442**	**21,871**	
2011 total	8,851	6,582	2,643	408	138	395		19,017
Executive Officers:								
Stephen Chadwick (from 1st August 2012)	650	130	369	121	–	376	**1,646**	–
Summit Chan	1,486	831	469	193	–	2	**2,981**	2,826
John Chi (until 30th September 2011)	–	–	–	280	–	–	**280**	4,355
Patrick Healy (until 1st August 2012)	923	1,201	262	421	915	948	**4,670**	5,565
Kenny Tang	2,154	1,232	654	279	–	1	**4,320**	4,161
	5,213	3,394	1,754	1,294	915	1,327	**13,897**	16,907
2012 total	**5,213**	**3,394**	**1,754**	**1,294**	**915**	**1,327**	**13,897**	
2011 total	6,360	4,042	2,698	614	613	2,580		16,907

Notes:

a. *Annual Directors' fees are determined by the Board and for 2012 comprised Director's fee of HK$345,000 (2011: HK$345,000), fee for members serving on Audit Committee of HK$90,000 (2011: HK$90,000) and fee for members serving on Remuneration Committee of HK$35,000 (2011: HK$35,000) respectively. The fee for the Chairman of Audit Committee is HK$120,000 (2011: HK$120,000) and the fee for the Chairman of Remuneration Committee is HK$46,000 (2011: HK$46,000).*

b. *Bonuses are not yet approved for 2012. The amounts disclosed above are related to services as Executive Directors or Executive Officers for 2011 but paid and charged to the Group in 2012.*

7. Other net (losses)/gains

	Group 2012 HK$M	Group 2011 HK$M
Net foreign exchange (losses)/gains	**(8)**	36
Loss on disposal of property, plant and equipment	**(1)**	(5)
Amortisation of deferred income	**1**	–
	(8)	31

8. Finance income and finance charges

	Group 2012 HK$M	Group 2011 HK$M
Finance income:		
Short-term deposits and bank balances	**13**	16
Loans due from jointly controlled companies	**5**	2
Finance charges:		
Bank loans	**(35)**	(25)
	(17)	(7)

9. Taxation

	Group 2012 HK$M	Group 2011 HK$M
Current taxation:		
Hong Kong profits tax	**97**	64
Overseas taxation	**27**	32
Under-provisions in prior years	**10**	20
	134	116
Deferred taxation (note 19):		
Increase in deferred tax assets	**(34)**	(31)
Increase/(decrease) in deferred tax liabilities	**32**	(1)
	132	84

Hong Kong profits tax is calculated at 16.5% (2011: 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.

The Group's share of jointly controlled companies' tax charge of HK$99 million (2011: HK$91 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	
	2012	2011
	HK$M	HK$M
Profit before taxation	**1,041**	960
Calculated at a tax rate of 16.5% (2011: 16.5%)	**172**	158
Share of after-tax results of jointly controlled companies	**(93)**	(72)
Effect of different tax rates in other countries	**(2)**	17
Income not subject to tax	**(6)**	(15)
Expenses not deductible for tax purposes	**3**	6
Unused tax losses not recognised	**13**	11
Under-provisions in prior years	**10**	20
Effect of change in tax rates	**28**	(24)
Deferred tax assets written off	**17**	–
Recognition of previously unrecognised temporary differences	**(17)**	–
Others	**7**	(17)
Tax charge	**132**	84

10. Profit attributable to the Company's shareholders

Of the profit attributable to the Company's shareholders, HK$810 million (2011: HK$828 million) is dealt with in the financial statements of the Company.

11. Dividends

	Company	
	2012	2011
	HK$M	HK$M
First interim dividend paid on 18th September 2012 of HK$0.88 per share (2011: HK$0.70 per share)	**146**	116
Second interim dividend (in lieu of a final dividend) declared on 12th March 2013 of HK$2.00 per share (2011: HK$1.90 per share)	**333**	316
Special dividend: nil (2011: HK$3.40 per share)	**–**	566
	479	998

The second interim dividend is not accounted for because it 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 2013.

12. Earnings per share (basic and diluted)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK$876 million (2011: HK$821 million) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2011: 166,324,850).

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

	Group						
	Property, plant and equipment						
	Buildings and building facilities	Plant, machinery and tools	Vehicles, equipment and furniture	Rotable spares	Assets under construction	Total	Leasehold land and land use rights
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Cost							
At 1st January 2011	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
Translation differences	17	10	1	–	–	28	3
Additions and transfers	30	179	29	70	28	336	1
Disposals	–	(31)	(17)	(7)	–	(55)	–
At 31st December 2012	**5,561**	**2,118**	**176**	**469**	**99**	**8,423**	**466**
Accumulated depreciation, amortisation and impairment							
At 1st January 2011	1,534	1,039	106	124	–	2,803	76
Translation differences	49	38	3	–	–	90	6
Depreciation and amortisation 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
Translation differences	6	5	1	–	–	12	1
Depreciation and amortisation charge for the year	213	148	20	20	–	401	11
Impairment charge for the year	11	34	–	13	–	58	–
Reversal of impairment charge	–	–	–	(11)	–	(11)	–
Disposals	–	(30)	(17)	(4)	–	(51)	–
At 31st December 2012	**2,025**	**1,304**	**123**	**178**	**–**	**3,630**	**104**
Net book value							
At 31st December 2012	**3,536**	**814**	**53**	**291**	**99**	**4,793**	**362**
At 31st December 2011	3,719	813	44	246	71	4,893	370

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

	Company						
	Property, plant and equipment						
	Buildings and building facilities	Plant, machinery and tools	Vehicles, equipment and furniture	Rotable spares	Assets under construction	Total	Leasehold land
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Cost							
At 1st January 2011	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
Additions and transfers	24	52	15	50	–	141	–
Disposals	–	(18)	(9)	(373)	–	(400)	–
At 31st December 2012	**3,077**	**720**	**96**	**83**	**17**	**3,993**	**21**
Accumulated depreciation, amortisation and impairment							
At 1st January 2011	909	510	62	124	–	1,605	5
Depreciation and amortisation 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
Depreciation and amortisation charge for the year	115	48	10	17	–	190	–
Impairment charge for the year	–	–	–	13	–	13	–
Reversal of impairment charge	–	–	–	(11)	–	(11)	–
Disposals	–	(17)	(8)	(96)	–	(121)	–
At 31st December 2012	**1,138**	**571**	**71**	**83**	**–**	**1,863**	**6**
Net book value							
At 31st December 2012	**1,939**	**149**	**25**	**–**	**17**	**2,130**	**15**
At 31st December 2011	2,030	146	21	246	17	2,460	15

At 31st December 2012 and 2011, 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$362 million (2011: HK$370 million), HK$15 million (2011: HK$15 million) relates to the net book value of leasehold land held in Hong Kong by the Company and HK$347 million (2011: HK$355 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.

In 2012, the impairment charges in respect of building and building facilities and plant, machinery and tools are due to the fire incident in TALSCO. The reversal of impairment charge in respect of rotable spares is the increase of fair value less costs to sell.

14. Intangible assets

	Group				Company
	Goodwill	Technical licences	Others	Total	Others
	HK$M	HK$M	HK$M	HK$M	HK$M
Cost					
At 1st January 2011	31	539	29	599	10
Translation differences	–	(3)	1	(2)	–
Additions	–	–	22	22	–
At 31st December 2011	31	536	52	619	10
Translation differences	–	(1)	–	(1)	–
At 31st December 2012	**31**	**535**	**52**	**618**	**10**
Accumulated amortisation					
At 1st January 2011	–	18	11	29	10
Amortisation charge for the year	–	26	4	30	–
At 31st December 2011	–	44	15	59	10
Amortisation charge for the year	–	27	4	31	–
At 31st December 2012	**–**	**71**	**19**	**90**	**10**
Net book value					
At 31st December 2012	**31**	**464**	**33**	**528**	**–**
At 31st December 2011	31	492	37	560	–

The technical licences have a remaining amortisation period of 18 years (2011: 19 years).

Impairment test of goodwill

Goodwill all relates to TEXL which is considered to be a stand-alone cash-generating unit ("CGU") of the Group as well as an operating segment in its own right. The recoverable amount of this CGU has been determined on a value in use basis. The key assumptions for the recoverable value of this CGU are the growth rate and discount rate used. The discount rate of 8% (2011: 8%) is based on the Group's weighted average cost of capital, adjusted for country specific risk relating to this CGU. The valuation uses cash flow forecasts based on detailed financial budgets prepared by management covering a ten year period. A ten year forecast is considered appropriate as this takes into account the expectation of significant growth in the business. An assumption of no growth in cash flows after year ten is adopted.

If discounted cash flows should fall by 10%, or should the discount rate increase by 1% there would still be no impairment.

15. Subsidiary companies

	Company	
	2012	2011
	HK$M	HK$M
Unlisted shares at cost	**1,157**	801

The principal subsidiary companies are shown on page 91.

A loan due from a subsidiary company of HK$210 million (2011: HK$8 million) is unsecured and interest free (2011: same). The loan is non-current and has no fixed terms of repayment.

16. Jointly controlled companies

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Unlisted shares at cost less provisions	**210**	197	**123**	145
Attributable post-acquisition reserves	**961**	903	**–**	–
	1,171	1,100	**123**	145
Dividends received and receivable from jointly controlled companies during the year	**504**	426	**489**	402

The principal jointly controlled companies are shown on page 91.

Included in trade and other receivables are loans due from jointly controlled companies to the Group of HK$89 million (2011: HK$76 million) which are unsecured and carry interest at 4.58% to 6.16% per annum (2011: 3.60% to 6.71% per annum). At 31st December 2012, loans of HK$60 million have been due for over six months. Loans of HK$29 million are repayable at various dates in 2013.

16. Jointly controlled companies (continued)

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	
	2012	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Turnover	**5,453**	4,232	**500**	402	**5,953**	4,634
Operating expenses	**(4,927)**	(3,813)	**(449)**	(355)	**(5,376)**	(4,168)
Operating profit	**526**	419	**51**	47	**577**	466
Net finance charges	**(2)**	(1)	**(6)**	(6)	**(8)**	(7)
Share of after-tax results of jointly controlled companies	**94**	67	**–**	–	**94**	67
Profit before taxation	**618**	485	**45**	41	**663**	526
Taxation	**(87)**	(70)	**(12)**	(21)	**(99)**	(91)
Profit for the year	**531**	415	**33**	20	**564**	435
Dividends paid and/or declared	**474**	380	**30**	46	**504**	426
Net assets employed:						
Non-current assets	**590**	575	**288**	356	**878**	931
Current assets	**1,159**	1,249	**276**	266	**1,435**	1,515
	1,749	1,824	**564**	622	**2,313**	2,446
Current liabilities	**(715)**	(851)	**(184)**	(246)	**(899)**	(1,097)
Non-current liabilities	**(175)**	(173)	**(70)**	(78)	**(245)**	(251)
	859	800	**310**	298	**1,169**	1,098
Financed by:						
Shareholders' equity	**859**	800	**310**	298	**1,169**	1,098

The significant movements are analysed as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
At 1st January	**1,100**	1,064	**145**	135
Translation differences	**1**	15	**–**	–
Acquisition of jointly controlled companies	**7**	14	**5**	10
Share of retained profit	**60**	9	**–**	–
Other movements	**3**	(2)	**(27)**	–
At 31st December	**1,171**	1,100	**123**	145

17. Financial instruments by category

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

	Group			Company
	Loans and receivables	At fair value through profit or loss	Total	Loans and receivables
	HK$M	HK$M	HK$M	HK$M
At 31st December 2012				
Assets				
Derivative financial instruments	**–**	**5**	**5**	**–**
Trade and other receivables	**1,497**	**–**	**1,497**	**950**
Bank balances and short-term deposits	**1,423**	**–**	**1,423**	**767**
Total	**2,920**	**5**	**2,925**	**1,717**

	At fair value through profit or loss	Other financial liabilities	Total	Other financial liabilities
	HK$M	HK$M	HK$M	HK$M
At 31st December 2012				
Liabilities				
Derivative financial instruments	**9**	**–**	**9**	**–**
Trade and other payables	**–**	**383**	**383**	**194**
Advance from a related party	**–**	**90**	**90**	**–**
Put option in respect of non-controlling interest in a subsidiary company	**72**	**–**	**72**	**–**
Borrowings	**–**	**1,684**	**1,684**	**442**
Total	**81**	**2,157**	**2,238**	**636**

	Loans and receivables	At fair value through profit or loss	Total	Loans and receivables
	HK$M	HK$M	HK$M	HK$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

	At fair value through profit or loss	Other financial liabilities	Total	Other financial liabilities
	HK$M	HK$M	HK$M	HK$M
At 31st December 2011				
Liabilities				
Derivative financial instruments	1	–	1	–
Trade and other payables	–	363	363	166
Borrowings	–	1,450	1,450	198
Total	1	1,813	1,814	364

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 until 31st May 2012; HK$1,250 per month effective from 1st June 2012).

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 year ended 31st December 2011, the HKAS 19 disclosure was based on valuations prepared by Towers Watson at 31st December 2009, which were updated at 31st December 2011 by Cannon Trustees Limited, the main administration manager of the Company's defined benefit schemes. For the year ended 31st December 2012, the HKAS 19 disclosure was based on valuations prepared by qualified actuaries, Mercer (Hong Kong) Limited at 31st December 2012.

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

	Group	
	2012	2011
	HK$M	HK$M
Local Scheme	**30**	12
Expatriate Scheme	**(2)**	(2)
MPF, statutory and other defined contribution schemes	**104**	84
	132	94

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	
	2012	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Current service cost	**91**	85	**4**	4	**95**	89
Interest cost	**85**	86	**4**	4	**89**	90
Expected return on plan assets – gain	**(146)**	(159)	**(10)**	(10)	**(156)**	(169)
Total	**30**	12	**(2)**	(2)	**28**	10
Actual return on plan assets – gain/(loss)	**288**	(61)	**20**	(2)	**308**	(63)

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 31st December:						
Fair value of plan assets	**2,426**	2,292	**175**	167	**2,601**	2,459
Present value of obligations	**(2,348)**	(2,207)	**(115)**	(112)	**(2,463)**	(2,319)
Net assets	**78**	85	**60**	55	**138**	140
Net unrecognised actuarial losses/(gains)	**206**	178	**(1)**	2	**205**	180
Net retirement benefit assets	**284**	263	**59**	57	**343**	320

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	
	2012	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Assets at 1st January	**263**	246	**57**	55	**320**	301
Increase due to:						
Total (expense)/income – as shown above	**(30)**	(12)	**2**	2	**(28)**	(10)
Contributions paid	**51**	29	**–**	–	**51**	29
Assets at 31st December	**284**	263	**59**	57	**343**	320

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

Principal actuarial assumptions for the year:

	Group and Company			
	Local Scheme		Expatriate Scheme	
	2012	2011	**2012**	2011
Discount rate	**3.32%**	3.96%	**3.32%**	3.96%
Expected rate of return on plan assets	**6.50%**	6.50%	**6.00%**	6.00%
Expected rate of future salary increases	**3.85%**	3.86%	**3.25%**	3.50%

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	
	2012	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,292**	2,481	**167**	174	**2,459**	2,655
Employer contributions	**51**	29	**–**	–	**51**	29
Employee contributions	**–**	–	**2**	2	**2**	2
Expected return	**146**	159	**10**	10	**156**	169
Benefits paid	**(205)**	(157)	**(14)**	(7)	**(219)**	(164)
Actuarial gains/(losses)	**142**	(220)	**10**	(12)	**152**	(232)
At 31st December	**2,426**	2,292	**175**	167	**2,601**	2,459

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,207**	2,010	**112**	104	**2,319**	2,114
Employee contributions	**–**	–	**2**	2	**2**	2
Current service cost	**91**	85	**4**	4	**95**	89
Interest cost	**85**	86	**4**	4	**89**	90
Benefits paid	**(205)**	(157)	**(14)**	(7)	**(219)**	(164)
Actuarial losses	**170**	183	**7**	5	**177**	188
At 31st December	**2,348**	2,207	**115**	112	**2,463**	2,319

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			
	2012	**2012**	2011	2011	**2012**	**2012**	2011	2011
	HK$M	**%**	HK$M	%	**HK$M**	**%**	HK$M	%
Equities	**963**	**40%**	899	39%	**54**	**31%**	50	30%
Bonds	**1,416**	**58%**	1,328	58%	**117**	**67%**	112	67%
Cash and others	**47**	**2%**	65	3%	**4**	**2%**	5	3%
Total	**2,426**	**100%**	2,292	100%	**175**	**100%**	167	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 31% in equities and 69% 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 2013 are HK$52 million for Local Scheme and nil for Expatriate Scheme.

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

	Group and Company				
	Total				
	2012	2011	2010	2009	2008
	HK$M	HK$M	HK$M	HK$M	HK$M
Fair value of plan assets	**2,601**	2,459	2,655	2,478	1,877
Present value of defined benefit obligations	**(2,463)**	(2,319)	(2,114)	(2,031)	(1,905)
Surplus/(deficit)	**138**	140	541	447	(28)
Experience (losses)/gains on plan liabilities	**(47)**	(19)	31	(26)	11
Experience gains/(losses) on plan assets	**152**	(232)	113	499	(1,251)

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		
	Provisions	Tax losses	Total
	HK$M	HK$M	HK$M
Deferred tax assets			
At 1st January 2011	47	11	58
Credited to income statement	26	5	31
Credited to other comprehensive income	5	–	5
At 31st December 2011	78	16	94
Translation differences	1	1	2
(Charged)/credited to income statement	(7)	41	34
At 31st December 2012	**72**	**58**	**130**

19. Deferred taxation (continued)

	Company Provisions HK$M
Deferred tax assets	
At 1st January 2011	18
Credited to income statement	6
At 31st December 2011	24
Credited to income statement	2
At 31st December 2012	**26**

	Group			
	Accelerated tax depreciation HK$M	Retirement benefit assets HK$M	Others HK$M	Total HK$M
Deferred tax liabilities				
At 1st January 2011	244	10	84	338
Charged/(credited) to income statement	7	16	(24)	(1)
Change in tax treatment for retirement benefits	–	23	–	23
Charged to other comprehensive income	–	–	1	1
At 31st December 2011	251	49	61	361
(Credited)/charged to income statement	(2)	6	28	32
At 31st December 2012	**249**	**55**	**89**	**393**

	Company			
	Accelerated tax depreciation HK$M	Retirement benefit assets HK$M	Others HK$M	Total HK$M
Deferred tax liabilities				
At 1st January 2011	244	10	25	279
Charged/(credited) to income statement	7	16	(25)	(2)
Change in tax treatment for retirement benefits	–	23	–	23
At 31st December 2011	251	49	–	300
(Credited)/charged to income statement	(34)	6	–	(28)
At 31st December 2012	**217**	**55**	**–**	**272**

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% (2011: 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$476 million (2011: HK$297 million) to carry forward against future taxable income. Tax losses of HK$21 million will expire in 2013, HK$34 million will expire in 2014, HK$76 million will expire in 2015, HK$103 million will expire in 2016, HK$196 million will expire in 2017 and HK$46 million have no expiry date (2011: HK$46 million in 2013; HK$69 million in 2014; HK$59 million in 2015; HK$81 million in 2016 and HK$42 million no expiry date).

19. Deferred taxation (continued)

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

	Group 2012 HK$M	Group 2011 HK$M
Deferred tax assets:		
To be recovered after more than 12 months	**32**	63
To be recovered within 12 months	**14**	6
	46	69

	Group 2012 HK$M	Group 2011 HK$M
Deferred tax liabilities:		
To be settled after more than 12 months	**320**	346
To be settled within 12 months	**(11)**	(10)
	309	336

	Company 2012 HK$M	Company 2011 HK$M
Deferred tax liabilities:		
To be settled after more than 12 months	**258**	288
To be settled within 12 months	**(12)**	(12)
	246	276

20. Derivative financial instruments

	Group			
	Assets		Liabilities	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Forward foreign exchange contracts				
– not qualifying as hedges	**5**	8	**9**	1
Total	**5**	8	**9**	1
Less non-current portion				
Forward foreign exchange contracts				
– not qualifying as hedges	**2**	3	**8**	1
	2	3	**8**	1
Current portion	**3**	5	**1**	–

20. Derivative financial instruments (continued)

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

Forward foreign exchange contracts

The total notional principal amount of the outstanding forward foreign exchange contracts at 31st December 2012 was HK$1,010 million (2011: HK$1,171 million).

Interest rate swaps

The total notional principal amount of the outstanding interest rate swap contracts at 31st December 2012 was HK$150 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	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Guarantees provided in respect of loans of:				
Subsidiary companies	**–**	–	**710**	716
Jointly controlled companies	**68**	55	**50**	–
	68	55	**760**	716

The liabilities guaranteed will mature at various dates from 2013 to 2016.

22. Stocks

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Carrying amounts at net realisable value:				
Stocks	**181**	225	**175**	199

The remaining balances are carried at cost.

23. Work in progress

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
The aggregate costs incurred and recognised profits to date	**287**	196	**60**	85
Less: Progress billings	**74**	53	**1**	20
	213	143	**59**	65

24. Trade and other receivables

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Trade receivables – in HK dollars	**28**	48	**28**	48
– in US dollars	**320**	364	**185**	142
– in other currencies	**118**	38	**–**	–
	466	450	**213**	190
Less: Provision for impairment of receivables	**(21)**	(5)	**(7)**	(5)
	445	445	**206**	185
Amounts due from subsidiary companies	**–**	–	**157**	190
Amounts due from jointly controlled companies	**137**	113	**15**	22
Amounts due from related parties	**431**	183	**153**	115
Interest-bearing advance to a subsidiary company at 1.83%	**–**	–	**–**	179
Other receivables and prepayments	**484**	252	**209**	118
	1,497	993	**740**	809

The fair values of trade and other receivables are not materially different from their book values. The amounts due from subsidiary companies, jointly controlled companies and related parties are unsecured. The balances are interest free and on normal trade credit terms.

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Current	**226**	251	**70**	81
Up to 3 months overdue	**186**	167	**131**	99
3 to 6 months overdue	**20**	14	**5**	7
Over 6 months overdue	**34**	18	**7**	3
	466	450	**213**	190

At 31st December 2012, trade receivables of the Group of HK$21 million (2011: HK$5 million) and of the Company of HK$7 million (2011: HK$5 million) 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	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
3 to 6 months overdue	**1**	4	**–**	4
Over 6 months overdue	**20**	1	**7**	1
	21	5	**7**	5

24. Trade and other receivables (continued)

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
At 1st January	**5**	–	**5**	–
Provision for impairment of receivables	**16**	5	**2**	5
At 31st December	**21**	5	**7**	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	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Trade payables	**116**	88	**22**	32
Amounts due to subsidiary companies	**–**	–	**18**	10
Amounts due to jointly controlled companies	**14**	1	**10**	–
Amounts due to related parties	**25**	41	**25**	35
Interest-bearing advance from a related party at 1.83%	**–**	24	**–**	–
Accrued capital expenditure	**74**	94	**8**	10
Accruals	**958**	700	**475**	421
Other payables	**228**	209	**119**	89
	1,415	1,157	**677**	597

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Current	**79**	75	**8**	28
Up to 3 months overdue	**34**	12	**14**	4
3 to 6 months overdue	**1**	1	**–**	–
Over 6 months overdue	**2**	–	**–**	–
	116	88	**22**	32

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.

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

26. Borrowings

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Short-term loans – in HK dollars	**120**	120	**–**	–
– in US dollars	**35**	34	**–**	–
– in other currency	**4**	–	**–**	–
	159	154	**–**	–
Long-term loans at cost				
– in HK dollars	**548**	303	**442**	198
– in US dollars	**977**	993	**–**	–
	1,525	1,296	**442**	198
Less: amounts due within one year included under current liabilities				
– in HK dollars	**–**	205	**–**	100
– in US dollars	**103**	798	**–**	–
	1,422	293	**442**	98

All the loans are unsecured. The carrying amounts approximate their fair values because all the loans are on a floating rate basis at 31st December 2012.

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Bank loans:				
Repayable within one year	**103**	1,003	**–**	100
Repayable between one and two years	**359**	10	**148**	–
Repayable between two and five years	**1,063**	283	**294**	98
	1,525	1,296	**442**	198

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
6 months or less	**1,536**	1,450	**294**	198

The Group's and Company's weighted average effective interest rates per annum at 31st December 2012 are 1.84% (2011: 1.46%) and 1.63% (2011: 0.93%) respectively.

27. Advance from a related party

The advance from a related party is interest-free and unsecured. It has no fixed term of repayment and the related party has confirmed that they will not seek repayment within 12 months from the balance sheet date.

28. Share capital

	Company			
	2012		2011	
	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.

29. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Group										
At 1st January	**5,744**	5,336	**19**	19	**148**	38	**(2)**	4	**5,909**	5,397
Profit for the year	**876**	821	**–**	–	**–**	–	**–**	–	**876**	821
Other comprehensive income										
Cash flow hedges										
– deferred tax	**–**	–	**–**	–	**–**	–	**–**	1	**–**	1
– transferred to other net gains	**–**	–	**–**	–	**–**	–	**–**	(5)	**–**	(5)
Share of other comprehensive income of a jointly controlled company	**–**	–	**–**	–	**–**	–	**3**	(2)	**3**	(2)
Net translation differences on foreign operations	**–**	–	**–**	–	**9**	110	**–**	–	**9**	110
Total comprehensive income for the year	**876**	821	**–**	–	**9**	110	**3**	(6)	**888**	925
Change in tax treatment for retirement benefits	**–**	(23)	**–**	–	**–**	–	**–**	–	**–**	(23)
Previous year's second interim/final dividend paid	**(316)**	(274)	**–**	–	**–**	–	**–**	–	**(316)**	(274)
Previous year's special dividend paid	**(566)**	–	**–**	–	**–**	–	**–**	–	**(566)**	–
Current year's first interim dividend paid	**(146)**	(116)	**–**	–	**–**	–	**–**	–	**(146)**	(116)
Change in composition of Group (note 35)	**(6)**	–	**–**	–	**–**	–	**–**	–	**(6)**	–
Put option in respect of non-controlling interest in a subsidiary company	**(72)**	–	**–**	–	**–**	–	**–**	–	**(72)**	–
At 31st December	**5,514**	5,744	**19**	19	**157**	148	**1**	(2)	**5,691**	5,909

29. Reserves (continued)

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Company										
At 1st January	**4,299**	3,884	**19**	19	**–**	–	**–**	–	**4,318**	3,903
Total comprehensive income for the year	**810**	828	**–**	–	**–**	–	**–**	–	**810**	828
Change in tax treatment for retirement benefits	**–**	(23)	**–**	–	**–**	–	**–**	–	**–**	(23)
Previous year's second interim/final dividend paid	**(316)**	(274)	**–**	–	**–**	–	**–**	–	**(316)**	(274)
Previous year's special dividend paid	**(566)**	–	**–**	–	**–**	–	**–**	–	**(566)**	–
Current year's interim dividend paid	**(146)**	(116)	**–**	–	**–**	–	**–**	–	**(146)**	(116)
At 31st December	**4,081**	4,299	**19**	19	**–**	–	**–**	–	**4,100**	4,318

The Group and Company revenue reserves include HK$333 million (2011: second interim dividend of HK$316 million and special dividend of HK$566 million declared) representing the second interim dividend declared for the year (note 11).

30. Non-controlling interests

	Group	
	2012	2011
	HK$M	HK$M
At 1st January	**1,015**	921
Share of profit for the year	**33**	55
Share of cash flow hedge reserve	**–**	(3)
Share of net translation differences on foreign operations	**9**	79
Share of total comprehensive income for the year	**42**	131
Acquisition of non-controlling interests in a subsidiary company	**6**	–
Disposal of non-controlling interests in subsidiary companies	**–**	(5)
Dividends paid	**(12)**	(32)
Capital contribution from non-controlling interests	**85**	–
At 31st December	**1,136**	1,015

31. 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 2012, the current portion included in other payables under current liabilities is HK$10 million (2011: HK$11 million) while the non-current portion is HK$48 million (2011: HK$58 million).

32. Notes to the consolidated statement of cash flows

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

	Group	
	2012	2011
	HK$M	HK$M
Operating profit	**494**	532
Depreciation, amortisation and impairment	**490**	439
Other net losses/(gains)	**1**	(23)
Operating profit before working capital changes	**985**	948
Increase in retirement benefit assets	**(23)**	(19)
Increase in stocks and work in progress	**(52)**	(9)
Increase in trade and other receivables in relation to operating activities	**(459)**	(179)
Increase in trade and other payables in relation to operating activities	**342**	66
Decrease in receipt in advance	**(10)**	(11)
Decrease in derivative financial instruments	**11**	–
Increase in long-term prepayment	**(12)**	–
Increase in deferred income	**10**	–
Cash generated from operations	**792**	796

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

	Group	
	2012	2011
	HK$M	HK$M
Cash and cash equivalents	**1,418**	1,320
Short-term deposits maturing after more than three months	**5**	24
	1,423	1,344

The Group's and Company's weighted average effective interest rates per annum on deposits at 31st December 2012 are 1.05% (2011: 1.70%) and 0.63% (2011: 1.16%) respectively. The deposits have an average maturity of 52 days (2011: 72 days) for the Group and 58 days (2011: 74 days) for the Company.

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2012 and 31st December 2011 is the carrying value of the bank balances and short-term deposits disclosed above.

33. Capital commitments

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for in the financial statements	**90**	111	**40**	52
Authorised by Directors but not contracted for	**392**	444	**25**	137
	482	555	**65**	189
The Group's share of capital commitments of jointly controlled companies not included above:				
Contracted but not provided for in the financial statements	**39**	23		
Authorised by Directors but not contracted for	**10**	123		

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

34. Lease commitments

At 31st December 2012, the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group and the Company were as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M
Land and buildings				
Not later than 1 year	**129**	110	**126**	108
Later than 1 year but not later than 5 years	**503**	414	**503**	412
Later than 5 years	**2,368**	2,093	**2,368**	2,093
	3,000	2,617	**2,997**	2,613

35. Transaction with non-controlling interests

On 29th June 2012, the Group completed the additional share capital injection of HK$74 million to TALSCO. After the capital injection, the Group's shareholding in TALSCO increased from 55.86% to 62.14%. The effect of changes in the ownership interest of TALSCO on the equity attributable to the Company's shareholders is summarised as follows:

	2012
	HK$M
Consideration paid for additional shareholding	**13**
Less: carrying amount of non-controlling interests acquired	**7**
Excess of consideration paid recognised within equity	**6**

The effect of this transaction with the non-controlling interests on the equity attributable to the Company's shareholders for 2012 is as follows:

	2012
	HK$M
Total comprehensive income attributable to the Company's shareholders	**888**
Changes in equity attributable to the Company's shareholders arising from the acquisition of additional interest in a subsidiary company	**(6)**
	882

36. 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.

37. 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	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
		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*	**–**	–	**–**	–	**2,447**	2,287	**2,447**	2,287
Other revenue	*b*	**54**	82	**–**	–	**–**	–	**54**	82
		54	82	**–**	–	**2,447**	2,287	**2,501**	2,369
Purchases:									
Costs payable to John Swire & Sons (H.K.) Limited under services agreement									
– Service fees payable during the year	*a*	**–**	–	**–**	–	**25**	24	**25**	24
– Expenses reimbursed at cost	*a*	**–**	–	**–**	–	**59**	51	**59**	51
Subtotal	*a*	**–**	–	**–**	–	**84**	75	**84**	75
– Share of administrative services		**–**	–	**–**	–	**4**	4	**4**	4
Total		**–**	–	**–**	–	**88**	79	**88**	79
Costs payable to Cathay Pacific Airways Limited under secondment agreement	*a*	**–**	–	**–**	–	**1**	–	**1**	–
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		**–**	–	**–**	–	**6**	5	**6**	5
Risk management service		**–**	–	**3**	2	**–**	–	**3**	2
Spares purchases from Cathay Pacific Airways Limited Group		**–**	–	**–**	–	**27**	27	**27**	27
Other purchases	*c*	**22**	8	**–**	2	**17**	27	**39**	37
		22	8	**3**	4	**139**	138	**164**	150

37. 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 Taikoo Spirit, and aircraft maintenance support charges from STA.*

d. *Amounts due from and due to jointly controlled companies and other related parties at 31st December 2012 are disclosed in notes 24 and 25 to the accounts.*

e. *Continuing connected transactions during 2012:*

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

(a) Cathay Pacific

The Company entered into a framework agreement ("Framework Agreement") with Cathay Pacific on 21st May 2007 for the provision of services by the Company and its subsidiaries ("HAECO Group") to the aircraft fleets of Cathay Pacific and its subsidiaries ("Cathay Pacific 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 Cathay Pacific 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.

The Company entered into a joint venture agreement ("Joint Venture Agreement") with Cathay Pacific on 24th September 2012 and established a subsidiary company, HXITM, to provide inventory technical management services ("ITM Services"). Pursuant to the Joint Venture Agreement, HXITM entered into an agreement ("ITM Services Agreement") with Cathay Pacific and Dragonair on 24th September 2012 to provide ITM Services to Cathay Pacific and Dragonair. The ITM Services Agreement constitutes a continuing connected transaction for the Company and is covered by the Framework Agreement.

Pursuant to the Joint Venture Agreement, HXITM and Cathay Pacific entered into an agreement ("CX Secondment Agreement") on 24th September 2012 for a term from 1st November 2012 to 31st December 2014, under which Cathay Pacific seconds a number of employees to HXITM.

Cathay Pacific 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. The transactions under the CX Secondment Agreement are continuing connected transactions in respect of which an announcement dated 24th September 2012 was published.

For the year ended 31st December 2012, the fees payable by Cathay Pacific Group to HAECO Group under the Framework Agreement totalled HK$2,447 million and the fees payable by HXITM to Cathay Pacific under the CX Secondment Agreement totalled HK$1 million.

(b) HXITM

Pursuant to the Joint Venture Agreement, the Company and HXITM entered into an agreement ("HAECO Services Agreement") on 24th September 2012 for a term from 1st November 2012 to 30th June 2014, pursuant to which the Company seconds a number of employees and provides certain repair services and other services (including administrative services) to HXITM.

As Cathay Pacific, a connected person of the Company at the listed company level, owns more than 10% of the voting rights in HXITM, HXITM is also a connected person of the Company. The transactions under the HAECO Services Agreement are continuing connected transactions in respect of which an announcement dated 24th September 2012 was published.

For the year ended 31st December 2012, the fees payable by HXITM to the Company under the HAECO Services Agreement totalled HK$17 million.

(c) 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% (2011: 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 2012, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$25 million and expenses of HK$59 million were reimbursed at cost.

38. Principal subsidiary and jointly controlled companies at 31st December 2012

	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 ITM Limited	Hong Kong	Aircraft inventory technical management	Share capital of HK$100	70%	–	70%
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 (Xiamen) Landing Gear Services Company Limited *	Xiamen	Landing gear repair and overhaul	Registered capital of US$26,890,000	56.285%	10%	62.14%
Taikoo Engine Services (Xiamen) Company Limited *	Xiamen	Commercial aero engine overhaul services	Registered capital of US$113,000,000	75.01%	10%	80.87%
Jointly Controlled Companies:						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited *	Jinjiang	Tyre services for commercial aircraft	Registered capital of US$7,500,000	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%
Shanghai Taikoo Aircraft Engineering Services Company Limited *#†	Shanghai	Line maintenance	Registered capital of US$3,700,000	34%	15%	42.78%
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%

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.*
^ *Company in which the Group does not have control despite holding more than 50% share capital.*
† *Translated name.*

Principal Accounting Policies

1. Basis of preparation

The financial statements have been prepared in accordance with 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 HKAS and HKFRS amendments effective from 1st July 2011 have not resulted in any significant impact on the results and financial position of the Group.

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

		Effective for accounting periods beginning on or after
HKFRSs (Amendment)	Annual Improvements to HKFRSs 2009-2011 Cycle	1st January 2013
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
HKAS 32 (Amendment)	Presentation – Offsetting Financial Assets and Financial Liabilities	1st January 2014
HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities	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
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1st January 2013

The improvements to HKFRSs 2009 to 2011 cycles consist of six amendments to five existing standards. It is not expected that these amendments will have a significant impact on the results and financial position of the Group.

The amendment to HKAS 1 focuses on improving presentation of components of other comprehensive income 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 impact on the results and financial position of the Group.

HKAS 19 was amended in June 2011. The impact on the Group's defined benefit plans will be as follows: to immediately recognise all past service costs; and to replace 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 asset. In addition, it will remove the accounting policy choice that currently permits only the recognition of actuarial gains and losses outside the 10% 'corridor' to be recognised in the income statement. Instead all such remeasurements will be required to be recognised in other comprehensive income, when they occur. The above implication is required to be applied retrospectively. Had the standard been applied in 2012, profit for the year would have been lower by approximately HK$50 million, other comprehensive income would have been higher by approximately HK$30 million, and net retirement benefit assets at 31st December 2012 would have been lower by approximately HK$205 million.

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 impact on the results and financial position of the Group.

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 impact on the results and financial position of the Group.

The amendment to HKAS 32 clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement". It is not expected that this amendment will have a significant impact on the results and financial position of the Group.

The amendment to HKFRS 7 requires entities to disclose quantitative information about financial assets and financial liabilities that are offset in the statement of financial position or subject to enforceable master netting agreement or similar arrangement. It is not expected that this amendment will have a significant effect on the impact on the results and financial position of the Group.

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. The Group has yet to assess the full impact of the new standard.

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 impact on the results and financial position of the Group.

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 impact on the results and financial position of the Group, and the Group will continue to equity account for its jointly controlled companies.

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 new standard will have a significant impact on the results and financial position of the Group.

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 in all relevant HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how the fair value should be measured where its use is already required or permitted by other standards in HKFRSs. It also provides new disclosure requirements. It is not expected that this new standard will have a significant impact on the results and financial position of the Group.

The amendments to HKFRSs 10, 11 and 12 provide additional transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. It is not expected that these amendments will have a significant impact on the results and financial position of the Group.

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.

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 profit or loss.

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.

Where the Group enters into a contract that contains an obligation (for example a written put option exercisable by the contract counterparty) to acquire shares in a partly-owned subsidiary company from the non-controlling interest, which is not part of a business combination, the Group records a financial liability for the present value of the redemption amount and reclassified from equity. Changes to the value of the financial liability are recognised in the income statement within finance income or finance charges.

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.

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 Executive Directors of the Board.

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 other comprehensive income, a translation difference on that gain or loss is recognised directly in other comprehensive income. 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 in other comprehensive income and accumulated in a separate component of equity.

6. Foreign currency translation (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated in a separate component of equity. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss 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	5% 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. In 2012, the Group reviewed the anticipated useful lives of rotable spares. As a result, their depreciation rate has been adjusted from 7% per annum to 5% per annum. The effect of this change on depreciation expense in the year and in future years is a decrease in the annual charge of HK$8 million.

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.

(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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in jointly controlled companies are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the jointly controlled companies operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in a jointly controlled company is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment's fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

10. Impairment of assets (continued)

Impairment testing of the investment in a subsidiary company is required upon receiving a dividend from that subsidiary company if the dividend exceeds the total comprehensive income of the subsidiary company concerned in the period the dividend is declared or if the carrying amount of the subsidiary company in the Company's statement of financial position exceeds the carrying amount of the subsidiary company's net assets including goodwill in the consolidated statement of financial position.

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.

(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.

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. Transaction costs are included 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.

(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. Trade and other receivables in the statement of financial position are stated net of such provisions.

Objective evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. 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. 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 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.

27. Government grants

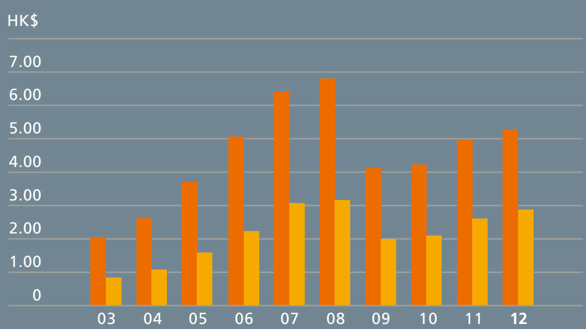
Grants from the government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to assets are recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

Ten-year Financial Summary

	2003	2004	2005
(in HK$ Million)			
Turnover	1,992	2,134	3,121
Net operating profit	104	219	508
Share of after-tax results of jointly controlled companies	263	256	267
Profit attributable to the Company's shareholders	345	438	618
Interim and final dividends	140	181	266
Special dividend	166	–	–
Net assets employed			
Non-current assets	1,513	3,229	3,495
Net current assets/(liabilities) excluding deposits and loans	1,159	68	45
Cash surplus/(Net borrowings)	316	476	877
Less: non-current liabilities excluding loans	–	(169)	(319)
	2,988	3,604	4,098
Financed by			
Equity attributable to the Company's shareholders	2,983	3,109	3,512
Non-controlling interests	5	495	586
	2,988	3,604	4,098
(in HK$)			
Results per share			
Earnings attributable to the Company's shareholders	2.07	2.63	3.72
Interim and final dividends	0.84	1.09	1.60
Special dividend	1.00	–	–
Equity attributable to the Company's shareholders	17.93	18.69	21.12
Number of staff			
HAECO	3,297	3,343	3,757
TAECO	1,927	2,250	2,945
HAESL	678	689	750
Other subsidiary and jointly controlled companies in which HAECO and TAECO own at least 20%	499	599	731
	6,401	6,881	8,183
Ratio			
Return on equity	11.2%	14.4%	18.7%
Profit margin	4.1%	9.1%	14.2%
Dividend cover – times*	2.46	2.42	2.32
Gearing ratio	–	–	–
Interest cover – times	27.00	74.00	NA
(in HK$)			
Share prices			
High	48.00	47.10	66.00
Low	20.10	32.00	39.90
Year-end	46.00	41.90	59.50
Market information			
Price/earnings – times	22.22	15.93	15.99
Market capitalisation (HK$ Million)	7,651	6,969	9,896

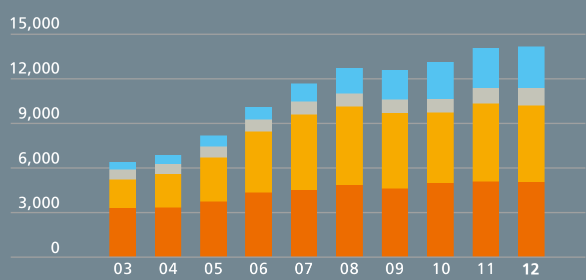
Earnings and Dividends Per Share*



Earnings Dividends*

** Dividends represent the interim and final dividends.*

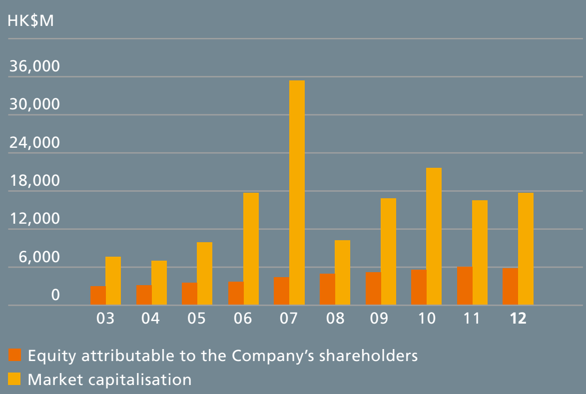
Number of Staff



HAECO TAECO HAESL
Other subsidiary and jointly controlled companies in which HAECO and TAECO own at least 20%

2006	2007	2008	2009	2010	2011	2012
3,844	4,619	4,901	4,045	4,266	5,171	**5,830**
779	1,000	1,017	380	389	525	**477**
330	399	462	420	407	435	**564**
847	1,073	1,138	688	701	821	**876**
374	512	529	332	349	432	**479**
416	–	–	–	–	566	**–**
4,063	4,716	6,227	6,789	6,902	7,315	**7,257**
(212)	(38)	(162)	(115)	146	276	**534**
834	767	215	(143)	(176)	(106)	**(261)**
(338)	(551)	(380)	(390)	(388)	(395)	**(537)**
4,347	4,894	5,900	6,141	6,484	7,090	**6,993**
3,665	4,409	4,961	5,177	5,563	6,075	**5,857**
682	485	939	964	921	1,015	**1,136**
4,347	4,894	5,900	6,141	6,484	7,090	**6,993**
5.09	6.45	6.84	4.14	4.21	4.94	**5.27**
2.25	3.08	3.18	2.00	2.10	2.60	**2.88**
2.50	–	–	–	–	3.40	**–**
22.04	26.51	29.83	31.13	33.45	36.52	**35.21**
4,356	4,523	4,861	4,621	4,967	5,102	**5,070**
4,098	5,086	5,268	5,094	4,739	5,240	**5,144**
805	844	908	892	901	1,023	**1,165**
859	1,245	1,701	2,008	2,471	2,689	**2,776**
10,118	11,698	12,738	12,615	13,078	14,054	**14,155**
23.6%	26.6%	24.3%	13.6%	13.1%	14.1%	**14.7%**
18.2%	19.8%	18.1%	8.4%	7.4%	8.5%	**5.9%**
2.26	2.10	2.15	2.07	2.01	1.90	**1.83**
–	–	–	2.3%	2.7%	1.5%	**3.7%**
NA	NA	NA	77.00	49.63	76.00	**29.06**
120.00	246.20	215.00	112.00	150.00	130.70	**113.48**
59.50	104.00	44.60	64.00	79.00	92.00	**94.33**
106.00	212.20	63.70	100.80	129.90	100.00	**106.40**
20.83	32.89	9.31	24.35	30.86	20.24	**20.19**
17,630	35,294	10,595	16,766	21,606	16,632	**17,697**

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 2013

Shares trade ex-dividend	27th March 2013
Register of members closed for second interim dividend	2nd April 2013
Annual Report available to shareholders	5th April 2013
Payment of 2012 second interim dividend	23rd April 2013
Register of members closed for attending and voting at Annual General Meeting	2nd – 7th May 2013
Annual General Meeting	7th May 2013
Interim results announcement	August 2013
First interim dividend payable	September 2013

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