

DIRECTORS' REPORT

董事局報告

The Directors submit their report and the audited accounts for the year ended 31st December 2006, which are set out on pages 33 to 63. Details of the following items are set out in the accounts as follows:

董事局謹提呈截至二零零六年十二月三十一日止年度的報告書及經審核賬目。該等賬目詳列於第三十三頁至第六十三頁。有關下述各項內容的詳情按以下頁數載於賬目內：

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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 4 and 5.

十年財務概要

集團的業績、資產及負債十年財務概要載於第四頁及第五頁。

Donations

During the year the Company and its subsidiary companies made donations for charitable purposes totalling HK\$3.3 million.

捐款

年內公司及其附屬公司的慈善捐款共達港幣三百三十萬元。

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 the section on continuing connected transactions.

服務協議

公司與香港太古集團有限公司（「香港太古集團」）訂立一份服務協議，協議詳情載於有關持續關連交易的章節內。

As directors/employees of the John Swire & Sons Limited ("Swire") group, Charles Bremridge, Martin Cubbon, Davy Ho, Peter Johansen, Michelle Low, Christopher Pratt and Tony Tyler are interested in the JSSHK Services Agreement (as defined below) and in the case of Peter Johansen also as a shareholder. David Turnbull was interested as director and employee of the Swire group until 31st January 2006.

彭勵志、郭鵬、何祖英、容漢新、劉美璇、白紀圖及湯彥麟作為英國太古集團有限公司（「太古」）集團董事/僱員，在香港太古集團服務協議（定義如下所述）中有利益關係，而容漢新同時亦為股東。唐寶麟作為太古集團董事及僱員有利益關係，直至二零零六年一月三十一日止。

Particulars of the fees paid and expenses reimbursed for the year ended 31st December 2006 are set out in note 26 to the accounts.

截至二零零六年十二月三十一日止年度的已付費用及代支費用於賬目附註26列述。

Major customers and suppliers (significant contracts)

68.5% of sales and 46.3% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 41.0% of sales were made to the Group's largest customer, Cathay Pacific Airways Limited ("CX") and its wholly owned subsidiary Hong Kong Dragon Airlines Limited ("KA"), while 24.5% of purchases were from the largest supplier, Aero-Inventory (U.K.) Limited which is a wholly owned subsidiary of Aero Inventory plc.

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

- CX and its controlling shareholder Swire Pacific Limited are interested as substantial shareholders of the Company;
- Derek Cridland was interested as shareholder, director and employee of CX;
- Charles Bremridge, J Robert Gibson and Michelle Low as shareholders of CX;
- Christopher Gibbs as employee of CX;
- Martin Cubbon, Davy Ho and Christopher Pratt and David Turnbull as directors of CX;
- Tony Tyler as shareholder and director of CX; and
- In respect of the Company's transactions with KA prior to it becoming a wholly owned subsidiary of CX in September 2006, CX and Swire Pacific Limited were interested as shareholders of KA and Tony Tyler as a director of KA.

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 (other than in respect to CX) has an interest in the customers or suppliers disclosed above.

Connected transaction

On 16th November 2006, the Company and its subsidiary Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") entered into a joint venture contract with CX, Japan Airlines International Company Limited ("JAL"), Shaanxi Liaoyuan Hydraulic System Company Limited ("Liaoyuan"), Xiamen Aviation Industry Company Limited ("Xiamen Aviation Industry") and Xian Aircraft International Company Limited ("Xian Aircraft") for the establishment of Taikoo (Xiamen) Landing Gear Services Co., Ltd. ("Joint Venture Company") in Xiamen for provision of repair, overhaul and support services of landing gears of civil aircraft at Xiamen Airport.

主要顧客及供應商〔重要合約〕

年內，集團的五大客戶及供應商分別佔公司銷售額百分之六十八點五及採購額百分之四十六點三。集團的最大客戶國泰航空有限公司（「國泰航空」）及其全資附屬公司港龍航空有限公司（「港龍航空」）佔公司銷售額百分之四十一，而百分之二十四點五的採購額則來自最大供應商Aero-Inventory (U.K.) Limited，該公司乃Aero Inventory plc的全資附屬公司。

就公司與國泰航空及港龍航空的交易：

- 國泰航空及其控股股東太古股份有限公司作為公司主要股東有利益關係；
- 梁德基作為國泰航空股東、董事及僱員有利益關係；
- 彭勵志、紀必信及劉美璇作為國泰航空股東有利益關係；
- 簡柏基作為國泰航空僱員有利益關係；
- 郭鵬、何祖英、白紀圖及唐寶麟作為國泰航空董事有利益關係；
- 湯彥麟作為國泰航空股東及董事有利益關係；及
- 就公司與港龍航空在港龍航空成為國泰航空全資附屬公司前所達成的交易，國泰航空與太古股份有限公司作為港龍航空股東有利益關係，而湯彥麟作為港龍航空董事亦有利益關係。

除上述所披露外，各董事、其聯繫人士或任何據董事局所知擁有逾百分之五公司已發行股本的股東（國泰航空除外），均無持有在上文披露的客戶或供應商的權益。

關連交易

公司及其附屬公司廈門太古飛機工程有限公司（「廈門太古飛機工程」）於二零零六年十一月十六日，與國泰航空、日本航空有限公司（「日航」）、陝西燎源液壓股份有限公司（「燎源」）、廈門航空工業有限公司（「廈門航空工業」）及西安飛機國際航空製造股份有限公司（「西安飛機」）簽訂合資合同，於廈門成立廈門太古起落架維修服務有限公司（「合資公司」），在廈門機場為民用飛機提供起落架修理、大修及支援服務。

The financing structure of the Joint Venture Company is as follows:-

合資公司的融資結構如下：

Joint Venture Party 合資方	Capital Contribution (US\$) 出資額 (美元)	Shareholder's Loan (Maximum Amount) (US\$) 股東貸款 (最高貸款額) (美元)	Shareholding Percentage 股權百分比	
The Company	6,972,780	5,506,940	50.2%	公司
TAECO	1,666,800	1,316,400	12.0%	廈門太古飛機工程
CX	1,375,110	1,086,030	9.9%	國泰航空
JAL	1,375,110	1,086,030	9.9%	日航
Liaoyuan	694,500	548,500	5.0%	燎源
Xiamen Aviation Industry	1,111,200	877,600	8.0%	廈門航空工業
Xian Aircraft	<u>694,500</u>	<u>548,500</u>	<u>5.0%</u>	西安飛機
Total	13,890,000	10,970,000	100.0%	總額
Total capital contribution	13,890,000			出資總額
Total shareholders' loan	10,970,000			股東貸款總額
Bank loan financing	<u>16,640,000</u>			銀行貸款融資
Total investment	<u>41,500,000</u>			投資總額

As CX and Xiamen Aviation Industry are respectively substantial shareholders of the Company and its subsidiary TAECO and hence connected persons of the Company, the transaction under the joint venture contract constituted a connected transaction of the Company, in respect of which an announcement dated 16th November 2006 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 26 have been entered into by the Group:

- in the ordinary and usual course of business of the Group;
- 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
- 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.

由於國泰航空及廈門航空工業分別為公司及其附屬公司廈門太古飛機工程的主要股東，因而為公司的關連人士，因此根據合資合同進行的交易構成公司的關連交易。公司已於二零零六年十一月十六日刊發有關公告。

持續關連交易

在集團進行的關連交易中並無任何利益關係的獨立非常務董事，已審核並確認賬目附註26列述的持續關連交易乃集團按以下原則訂立：

- 該等交易為集團的日常業務；
- 該等交易按照一般商務條款進行，或若可供比較的交易不足以判斷該等交易的條款是否屬一般商務條款，則對集團而言，該等交易的條款不遜於獨立第三者可取得或提供（視屬何情況而定）的條款；及
- 該等交易是根據有關協議的條款而進行，交易條款乃公平合理，並且符合公司股東的整體利益。

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, except for the continuing connected transactions with AHK Air Hong Kong Limited for the year ended 31st December 2006.

Directors

The names of the present Directors are listed on pages 23 to 25. Christopher Pratt was appointed Chairman and a Director on 9th August 2006. Albert Lam, Ashok Sathianathan and David Tong were appointed on 10th May 2006. Martin Cubbon and Christopher Gibbs were appointed on 9th August 2006 and 1st January 2007 respectively. Michelle Low was appointed on 6th March 2007. All the remaining Directors served throughout the year and still hold office at the date of this report. In addition, David Turnbull served as Chairman and a Director until his resignation with effect from 9th August 2006; Derek Cridland served as a Director until his resignation on 31st December 2006. J Robert Gibson has tendered his resignation as a Director with effect from 7th March 2007.

Christopher Gibbs served as Alternate Director to Derek Cridland until 31st December 2006. The Hon. Sir Michael Kadoorie served as Alternate Director to Dinty Dickson Leach until 31st December 2006 and as Alternate Director to David Tong with effect from 1st January 2007.

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 Peter Johansen retires at the forthcoming Annual General Meeting of the Company and, being eligible, offers himself for re-election. Martin Cubbon, Christopher Gibbs, Albert Lam, Michelle Low, Christopher Pratt, Ashok Sathianathan and David Tong, having been appointed to the Board under Article 91 since the last Annual General Meeting, also retire and offer themselves 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 his retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election/re-election. No Director has a service contract with the Company that is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

公司核數師亦已審核該等交易，並向董事局確認：

- (a) 該等交易已獲得公司董事局批准；
- (b) 該等交易乃按照集團的定價政策而進行 (如交易涉及由集團提供貨品及服務)；
- (c) 該等交易乃根據規限有關交易的協議而進行；及
- (d) 該等交易並無超逾之前刊發的公告所披露的有關年度上限，與華民航空截至二零零六年十二月三十一日止年度的持續關連交易則除外。

董事

現任董事的姓名列於第二十三頁至第二十五頁。白紀圖於二零零六年八月九日獲委任為主席兼董事。林光宇、沙舒雅及唐子樑於二零零六年五月十日獲委任。郭鵬及簡柏基分別於二零零六年八月九日及二零零七年一月一日獲委任。劉美璇於二零零七年三月六日獲委任。其餘所有董事皆於年內全年任職，並於本報告書公佈的日期仍然在任。此外，唐寶麟任職主席兼董事直至二零零六年八月九日其呈辭生效為止；梁德基任職董事直至二零零六年十二月三十一日退任。紀必信退任董事，由二零零七年三月七日生​​效。

簡柏基出任梁德基代董事，直至二零零六年十二月三十一日。米高嘉道理爵士則出任李德信代董事，直至二零零六年十二月三十一日，並由二零零七年一月一日起，出任唐子樑的代董事。

根據公司章程第九十三條，所有董事在通過普通決議案獲選後，均須於第三屆股東週年大會上告退。根據上述規定，容漢新於公司即將召開的股東週年大會告退，但因符合資格願意候選連任。郭鵬、簡柏基、林光宇、劉美璇、白紀圖、沙舒雅及唐子樑根據第九十一條於上屆股東週年大會後獲委任為董事，亦於本年告退並願候選連任。

各董事均與公司訂有一份聘書，該聘書構成服務合約，合約年期最多為三年，直至有關董事根據公司章程第91或93條退任為止，屆時可通過選舉/重選按次續約三年。各董事均無與公司訂有不可由僱主免付賠償金 (法定的賠償金除外) 而於一年內終止的服務合約。

Fees totalling HK\$0.6 million were paid to the Independent Non-Executive Directors during the year; they received no other emoluments from the Company or any of its subsidiary companies.

Directors' interests

At 31st December 2006, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that the following Directors held beneficial interests in the shares of Hong Kong Aircraft Engineering Company Limited and Taikoo (Xiamen) Aircraft Engineering Company Limited, its associated corporation (within the meaning of Part XV of the SFO):

Hong Kong Aircraft Engineering Company Limited 香港飛機工程有限公司	Capacity 持有身份	No. of shares 股份數目	Percentage of issued capital (%) 佔已發行股本百分比(%)	Note 附註
The Hon. Sir Michael Kadoorie (Alternate Director) 米高嘉道理爵士(代董事)	Trust 信託	3,782,886	2.27	1
J Robert Gibson 紀必信	Personal 個人	28,000	0.02	-
Dinty Dickson Leach 李德信	Personal 個人	124,800	0.08	-
David Tong 唐子樑	Personal 個人	20,000	0.01	-
Taikoo (Xiamen) Aircraft Engineering Company Limited 廈門太古飛機工程有限公司	Capacity 持有身份		Percentage of issued capital (%) 佔已發行股本百分比(%)	Note 附註
P.K. Chan 陳炳傑	Controlled corporation 受控法團		2.00	2
Notes 1. The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares. 2. The shares are held by Kin Kuen Development Company Limited in which P.K. Chan holds a 30% interest.		附註 1. 米高嘉道理爵士是最終持有此等股份的酌情信託的其中一位受益人及創立人。 2. 股份由陳炳傑持有三成權益的建群發展有限公司持有。		

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, if any (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

年內支付予獨立非常務董事的袍金總計港幣六十萬元；他們並無自公司或其任何附屬公司收取其他酬金。

董事權益

於二零零六年十二月三十一日，根據證券及期貨條例第三百五十二條須設立的名冊內所登記，董事在香港飛機工程有限公司及其相聯法團（定期見證券及期貨條例第XV部）廈門太古飛機工程有限公司的股份中持有以下實益：

除上述外，公司的董事或行政總裁並無在公司或其任何相聯法團（如有，定義見證券及期貨條例第XV部）的股份或相關股份及債券中擁有任何實益或非實益的權益或淡倉。

在本年度內或之前，公司的任何董事或其配偶或未成年子女並無獲授權或行使權利，以認購公司股份、認股權證或債券。

contract to which the Company, or any of its associated corporations was a party, which was of significance and in which the Director's interest was material.

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

Directors' interests in competing business

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

Substantial shareholders' and other interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2006 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	Number of shares 股份數目	Percentage of issued capital (%) 已發行股本百分比(%)	Type of interest (notes) 權益類別 (附註)
1. Cathay Pacific Airways Limited 國泰航空有限公司	45,649,686	27.45	Beneficial owner 實益擁有人
2. Swire Pacific Limited 太古股份有限公司	99,957,903	60.10	Beneficial owner and attributable interest ⁽¹⁾ 實益擁有人及應佔權益 ⁽¹⁾
3. John Swire & Sons Limited 英國太古集團有限公司	99,957,903	60.10	Attributable interest ⁽²⁾ 應佔權益 ⁽²⁾
4. Marathon Asset Management Limited	11,603,130	6.98	Investment manager 投資經理

Notes: At 31st December 2006:

- (1) Swire Pacific Limited was interested in 54,308,217 shares of the Company as beneficial owner and was also deemed to be interested in the 45,649,686 shares of the Company directly held by Cathay Pacific Airways Limited by virtue of Swire Pacific Limited's approximately 39.95% interest in Cathay Pacific Airways Limited;
- (2) John Swire & Sons Limited ("Swire") and its wholly owned subsidiary JSSHK are deemed to be interested in the 99,957,903 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's direct or indirect interests in shares of Swire Pacific Limited representing approximately 32.65% of the issued share capital and approximately 54.35% of the voting rights.

在本年度任何期間內，除在此報告內所述外，公司或其任何相聯法團所簽訂的重要合約，概無董事在其中直接或間接擁有重大實益。

在本年度任何期間內，公司或其任何相聯法團，概無任何安排使公司董事得以購買公司或其他法人團體的股份或債券而獲得利益。

董事於競爭性業務的權益

公司的董事及其各自的聯繫人士並無在任何競爭性業務中，擁有根據上市規則第8.10條規定須予披露的權益。

主要股東權益及其他權益

根據證券及期貨條例第三百三十六條須設立的股份及淡倉權益名冊所載，於二零零六年十二月三十一日，公司已獲主要股東及其他人等通知於公司的股份持有以下權益：

附註：於二零零六年十二月三十一日：

- (1) 太古股份有限公司作為實益擁有人持有公司54,308,217股股份權益，亦因太古股份有限公司擁有國泰航空有限公司約百分之三十九點九五權益，而被視作持有公司45,649,686股直接由國泰航空有限公司持有的股份權益；
- (2) 因英國太古集團有限公司(「太古」)直接或間接擁有太古股份有限公司股份權益，即約百分之三十二點六五已發行股本及約百分之五十四點三五投票權，而太古股份有限公司擁有公司權益，太古及其全資附屬公司香港太古集團被視作持有公司99,957,903股股份權益。

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, 6th March 2007

核數師

在即將舉行的股東週年大會上，將動議通過再聘請羅兵咸永道會計師事務所為公司核數師的決議案。

承董事局命

主席

白紀圖

香港，二零零七年三月六日