



Hong Kong Aircraft Engineering Company Limited

2010 Interim Report

Stock Code: 00044



Highlights

		Six months ended 30th June		Year ended 31st December
		2010	2009	2009
Results				
Turnover	HK\$ Million	2,049	2,162	4,039
Net operating profit	HK\$ Million	197	314	380
Share of after-tax results of jointly controlled companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	HK\$ Million	167	195	363
– Other jointly controlled companies	HK\$ Million	21	40	57
Profit attributable to the Company's shareholders	HK\$ Million	338	430	688
Earnings per share attributable to the Company's shareholders (basic and diluted)	HK\$	2.03	2.59	4.14
Interim and final dividends per share	HK\$	0.45	0.50	2.00
Financial Position				
Net borrowings	HK\$ Million	505	273	143
Gearing ratio	%	8.0	4.5	2.3
Total equity	HK\$ Million	6,276	6,011	6,141
Equity attributable to the Company's shareholders per share	HK\$	31.75	30.10	31.13
Cash Flows				
Net cash (used in)/generated from operating activities	HK\$ Million	(33)	351	729
Net cash (outflow)/inflow before financing activities	HK\$ Million	(65)	(46)	39

Note: The average number of shares in issue is 166,324,850 in 2010 (2009: 166,324,850).
Additional financial information of the Group's jointly controlled companies is presented on page 16.

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

CONTENTS

	Highlights
1	Chairman's Statement
2	Review of Operations
5	Consolidated Accounts
10	Notes to the Consolidated Accounts
20	Information Provided in Accordance with the Listing Rules
22	Financial Calendar and Information for Investors

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Chairman's Statement

CONSOLIDATED RESULTS

The profit attributable to the Company's shareholders for the first half of 2010 was HK\$338 million, a reduction of 21% from the same period in 2009.

Following the recovery in the aviation market that began in the last quarter of 2009, demand for HAECO's services in Hong Kong has strengthened. However, performance at Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") in Xiamen continues to be adversely affected by weak demand for passenger to freighter conversions of the Boeing 747 and reduced demand for airframe heavy maintenance in which the company specialises. Results from Hong Kong Aero Engine Services Limited ("HAESL"), the Company's joint venture engine overhaul facility in Hong Kong, fell slightly due to reduced work scope per engine. The Group's new joint ventures in Mainland China continued to sustain start-up losses as expected.

Your Directors have declared an interim dividend of HK\$0.45 per share (2009: HK\$0.50 per share) payable on 21st September 2010 to shareholders registered at the close of business on 10th September 2010. The share register will be closed from 6th to 10th September 2010, both dates inclusive.

OPERATIONS

The Group has continued to invest in both Hong Kong and Mainland China to expand its facilities and the range of services it can offer to customers:

- Taikoo Engine Services (Xiamen) Company Limited ("TEXL") completed the modifications to its facility and inducted its first GE90-115B engine in June.

- Taikoo Sichuan Aircraft Engineering Services Company Limited will open its first hangar in Chengdu in August.
- HAESL's component repair extension is expected to commence operations in the first quarter of 2011.
- TAECO's sixth hangar in Xiamen is expected to open in mid-2011.
- HAECO's acquisition of an additional 2% shareholding interest in TAECO is expected to complete in August, bringing its total interest to 58.55%.

PROSPECTS

Demand for HAECO's services in Hong Kong is expected to remain firm in the second half as long as the current aviation market recovery continues. However, TAECO's business in Xiamen is likely to continue to be weak, with substantial unsold capacity. Start-up losses at the new joint ventures in Mainland China are expected to continue in the second half while HAESL's results are expected to be satisfactory. Overall 2010 will be, as expected, a challenging year.

Christopher Pratt

Chairman

Hong Kong, 3rd August 2010

Review of Operations

The Group's profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		Change
	2010 HK\$M	2009 HK\$M	
HAECO Hong Kong operations	151	131	+15%
Share of:			
TAECO	39	98	-60%
HAESL and SAESL	167	195	-14%
Other subsidiary and jointly controlled companies	(19)	6	-417%
	338	430	-21%

HAECO HONG KONG OPERATIONS

HAECO's Hong Kong operations comprise airframe heavy maintenance, line maintenance at the passenger and cargo terminals at Hong Kong International Airport, component overhaul at Tseung Kwan O and third party inventory management. Business in Hong Kong has improved in the first half of 2010 and the Company recorded a 15% increase in profit compared to the first half in 2009.

Airframe heavy maintenance manhours sold were 1.39 million, 16% higher than in the first half of 2009. 74% of the work was from non-Hong Kong based carriers.

Line maintenance movements increased by 6% on the first half of 2009 with an average of 262 aircraft handled per day.

Component repair activity at the Tseung Kwan O facility totalled 0.13 million manhours, 24% lower than that of the first half of 2009 due to special projects carried out during the earlier period.

HAECO's Inventory Technical Management Department managed third party rotatable spares for various aircraft, including Airbus A300-600F, A319-100, A320-200 and A330-300 as well as Boeing 747-200F aircraft.

TAIKOO (XIAMEN) AIRCRAFT ENGINEERING COMPANY LIMITED

TAECO in Xiamen reported a 60% reduction in profitability as its business was adversely impacted by the weak Boeing passenger to freighter conversion market and reduced demand in airframe heavy maintenance work for its core customers. Airframe heavy maintenance manhours sold by TAECO decreased by 27% from the first half of 2009 to 1.33 million hours.

Line maintenance operations in Beijing, Shanghai, Tianjin and Xiamen increased by 16% on the first half of 2009 with aircraft handled averaging 44 per day.

TAECO's sixth hangar is expected to open in mid-2011.

ENGINE OVERHAUL

Hong Kong Aero Engine Services Limited

HAESL (45% owned) and its jointly controlled company, Singapore Aero Engine Services Pte. Limited (20% owned by HAESL), have registered a 14% decrease in profitability due mainly to lighter work scope per engine.

HAESL is constructing an additional component repair extension which is due to open in the first quarter of 2011.

OTHER SUBSIDIARY AND JOINTLY CONTROLLED COMPANIES

Results of the Group's other subsidiary and jointly controlled companies during the period were broadly in line with expectations. The new joint ventures in Mainland China continued to sustain start-up losses.

SUSTAINABLE DEVELOPMENT

The Group continues to monitor closely the impact of its operations on the environment and makes every effort to reduce this impact. Details of the activities which the Company regards as important both to the community and for its staff can be found in the Sustainable Development report on its website.

STAFF

The Group's headcount was:

	30th June 2010	31st December 2009	Change
HAECO	4,662	4,621	+1%
TAECO	4,800	5,094	-6%
HAESL	881	892	-1%
Other subsidiary and jointly controlled companies in which HAECO and TAECO own more than 20%	2,150	2,008	+7%
	12,493	12,615	-1%

FINANCIAL REVIEW

NET ASSETS

The Group's non-current assets increased slightly from HK\$6,789 million to HK\$6,807 million in the first half of 2010 mainly due to additions in fixed assets of HK\$171 million, primarily for the hangar and engine overhaul facility in Xiamen, as well as favourable translation differences of HK\$17 million which are offset by HK\$184 million of depreciation and amortisation. The Group's net current assets at 30th June 2010, excluding net liquid funds, totalled HK\$360 million.

LIQUIDITY AND FINANCING

At 30th June 2010, the Group had net borrowings amounting to HK\$505 million, with a gearing ratio of 8.0%. Net borrowings comprised short-term loans of HK\$230 million and long-term loans of HK\$1,092 million less bank balances and short-term deposits of HK\$817 million. Committed loan facilities amounted to HK\$2,339 million, of which HK\$1,151 million remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$286 million.

Sources of funds at 30th June 2010 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M
Committed facilities				
– Loans	2,339	1,188	145	1,006
Uncommitted facilities				
– Loans and overdraft	423	137	81	205
Total	2,762	1,325	226	1,211

LIQUIDITY AND FINANCING (continued)

For accounting purposes, the loans at period end are classified as follows:

	Group	
	30th June 2010 HK\$M	31st December 2009 HK\$M
Short-term loans – in HK dollars	101	267
– in US dollars	129	158
	230	425
Long-term loans drawn		
– in HK dollars	255	30
– in US dollars	840	671
	1,095	701
Unamortised loan fees	(3)	–
Long-term loans at amortised cost	1,092	701
Less: amount due within one year included under current liabilities		
– in HK dollars	50	–
– in US dollars	633	106
Unamortised loan fees	(1)	–
	410	595

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

The maturity of long-term loans at period end is as follows:

	Group	
	30th June 2010 HK\$M	31st December 2009 HK\$M
Bank loans:		
Repayable within one year	682	106
Repayable between one and two years	117	437
Repayable between two and five years	293	158
	1,092	701

CURRENCY FLUCTUATIONS

The Group's income is primarily in HK and US dollars and is matched by expenditure in the same currencies, except for subsidiary companies in Mainland China. TAECO has substantial Renminbi expenditure and it reduces its exposure to changes in the exchange rate of the Renminbi against the US dollar by retaining surplus funds in Renminbi and by selling US and HK dollars forward for Renminbi. At 30th June 2010, TAECO had sold forward a total of US\$56 million and HK\$24 million to cover part of its Renminbi requirement for the second half of 2010 and 2011.

SHAREHOLDINGS IN HAECO

HAECO became a subsidiary company of Swire Pacific Limited upon Swire Pacific Limited entering into a sale and purchase agreement on 7th June 2010 to acquire a 15% interest in HAECO from Cathay Pacific Airways Limited.

Swire Pacific Limited, Cathay Pacific Airways Limited and HAECO made a joint announcement on 7th June 2010 in respect of the mandatory unconditional cash offer by Asia Pacific Advisers Limited and The Hongkong and Shanghai Banking Corporation Limited on behalf of Swire Pacific Limited to acquire all of the issued shares in the capital of HAECO not already owned by Swire Pacific Limited or its subsidiary companies. The composite document in respect of this offer was despatched to the shareholders of HAECO on 28th June 2010.

Consolidated Income Statement

for the six months ended 30th June 2010 – unaudited

	Note	Six months ended 30th June		Year ended 31st December	
		2010 HK\$M	2009 HK\$M	2009 HK\$M	
Turnover	4	2,049	2,162	4,039	
Operating expenses:					
Staff remuneration and benefits		(964)	(976)	(1,980)	
Cost of direct material and job expenses		(462)	(479)	(901)	
Depreciation, amortisation and impairment		(184)	(183)	(358)	
Insurance and utilities		(54)	(49)	(103)	
Operating lease rentals – land and buildings		(69)	(62)	(129)	
Repairs and maintenance		(61)	(59)	(121)	
Other operating expenses		(55)	(50)	(88)	
		(1,849)	(1,858)	(3,680)	
Other net (losses)/gains	5	(1)	12	26	
Operating profit	4	199	316	385	
Net finance charge	6	(2)	(2)	(5)	
Net operating profit		197	314	380	
Share of after-tax results of jointly controlled companies	11	188	235	420	
Profit before taxation		385	549	800	
Taxation	7	(20)	(46)	(40)	
Profit for the period		365	503	760	
Profit attributable to:					
The Company's shareholders		338	430	688	
Non-controlling interests		27	73	72	
		365	503	760	
Dividends					
Interim – proposed/paid		75	83	83	
Final – paid		–	–	249	
		75	83	332	
		HK\$	HK\$	HK\$	
Earnings per share attributable to the Company's shareholders (basic and diluted)	8	2.03	2.59	4.14	
		2010	2009		
		Interim	Interim	Final	Total
		HK\$	HK\$	HK\$	HK\$
Dividends per share		0.45	0.50	1.50	2.00

Consolidated Statement of Comprehensive Income

for the six months ended 30th June 2010 – unaudited

	Six months ended 30th June		Year ended 31st December
	2010 HK\$M	2009 HK\$M	2009 HK\$M
Profit for the period	365	503	760
Other comprehensive income:			
Changes in cash flow hedges			
– recognised during the period	(1)	5	11
– deferred tax recognised	–	5	7
– transferred to other net gains	3	(27)	(47)
Exchange translation differences on foreign operations	17	(1)	1
Other comprehensive income/(loss) for the period, net of tax	19	(18)	(28)
Total comprehensive income for the period	384	485	732
Total comprehensive income attributable to:			
The Company's shareholders	352	420	673
Non-controlling interests	32	65	59
	384	485	732

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

Consolidated Statement of Financial Position

at 30th June 2010 – unaudited

	Note	30th June 2010 HK\$M	31st December 2009 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	4,603	4,618
Leasehold land and land use rights	9	314	317
Intangible assets	10	566	551
Jointly controlled companies	11	991	988
Derivative financial instruments	13	3	4
Deferred tax assets		48	39
Retirement benefit assets	12	282	272
		6,807	6,789
Current assets			
Stocks of aircraft parts		282	221
Work in progress		117	111
Trade and other receivables	14	765	536
Dividend receivable		9	–
Taxation recoverable		–	8
Derivative financial instruments	13	7	13
Cash and cash equivalents		692	844
Short-term deposits		125	139
		1,997	1,872
Current liabilities			
Trade and other payables	15	782	989
Taxation payable		33	–
Derivative financial instruments	13	5	15
Short-term loans		230	425
Long-term loans due within one year		682	106
		1,732	1,535
Net current assets		265	337
Total assets less current liabilities		7,072	7,126
Non-current liabilities			
Long-term loans		410	595
Receipt in advance		74	79
Deferred tax liabilities		312	311
		796	985
NET ASSETS		6,276	6,141
EQUITY			
Share capital	16	166	166
Reserves	17	5,114	5,011
Equity attributable to the Company's shareholders		5,280	5,177
Non-controlling interests		996	964
TOTAL EQUITY		6,276	6,141

Consolidated Statement of Cash Flows

for the six months ended 30th June 2010 – unaudited

	Six months ended 30th June		Year ended 31st December
	2010 HK\$M	2009 HK\$M	2009 HK\$M
Operating activities			
Cash (used in)/generated from operations	(46)	399	790
Interest paid	(4)	(6)	(13)
Interest received	4	3	6
Profits tax refunded/(paid)	13	(45)	(54)
<i>Net cash (used in)/generated from operating activities</i>	(33)	351	729
Investing activities			
Purchase of property, plant and equipment	(214)	(505)	(897)
Additions of intangible assets	(15)	(3)	(8)
Sale of property, plant and equipment	6	3	6
Purchase of shareholdings in jointly controlled companies	–	(33)	(42)
Loans advanced to a jointly controlled company	(5)	–	(19)
Loans repaid by a jointly controlled company	–	–	6
Dividends received from jointly controlled companies	181	140	392
Net decrease/(increase) in short-term deposits other than cash and cash equivalents	15	1	(128)
<i>Net cash used in investing activities</i>	(32)	(397)	(690)
<i>Net cash (outflow)/inflow before financing activities</i>	(65)	(46)	39
Financing activities			
Proceeds from loans	514	450	893
Repayment of loans	(320)	(7)	(444)
Dividends paid to the Company's shareholders	(249)	(374)	(457)
Dividends paid to non-controlling interests	(34)	(67)	(67)
<i>Net cash (used in)/generated from financing activities</i>	(89)	2	(75)
Net decrease in cash and cash equivalents	(154)	(44)	(36)
Cash and cash equivalents at 1st January	844	881	881
Translation adjustment	2	–	(1)
Cash and cash equivalents at end of the period	692	837	844

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2010 – unaudited

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

	Attributable to the Company's shareholders				Non-controlling interests HK\$M	Total equity HK\$M
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M		
At 1st January 2009	166	4,749	46	4,961	939	5,900
Profit for the period	–	430	–	430	73	503
Other comprehensive loss	–	–	(10)	(10)	(8)	(18)
Total comprehensive income/(loss) for the period	–	430	(10)	420	65	485
Dividends paid	–	(374)	–	(374)	–	(374)
At 30th June 2009	166	4,805	36	5,007	1,004	6,011

Notes to the Consolidated Accounts

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

- (a) The unaudited financial statements have been prepared on a basis consistent with the principal accounting policies adopted in the 2009 financial statements with the addition of certain new standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRS”) issued and effective as at the time of preparing this information. Where applicable, the comparatives have been amended as required.

In 2010, the Group adopted the following new or revised standards and interpretations of HKFRS below, which are relevant to its operations.

HKFRSs (Amendment)	Second annual improvements to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants in May 2009
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The adoption of such standards or interpretations does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the first half of 2010.

- (b) The financial statements have been prepared in accordance with the HKAS 34 “Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. This consolidated financial information should be read in conjunction with the 2009 financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3. MANAGEMENT OF FINANCIAL RISK FACTORS

The Group’s activities are exposed to movements of foreign currencies, fair value interest rate risk, credit risk and liquidity risk. These risks are reviewed periodically to ensure their impact on the Group’s financial performance is minimised through the use of forward contracts, options or other appropriate derivative financial instruments. It is the Group’s policy to use the above derivative instruments solely for the purpose of financial risk management, and not for speculative purposes.

4. SEGMENT INFORMATION

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

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

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
Six months ended 30th June 2010								
External turnover	1,418	570	3	3,389	(3,389)	36	–	2,027
Inter-segment turnover	58	2	–	2	(2)	8	(46)	22
Total turnover	1,476	572	3	3,391	(3,391)	44	(46)	2,049
Operating profit/(loss)	179	64	(32)	375	(375)	(12)	–	199
Finance income	–	3	1	–	–	–	–	4
Finance charge	(1)	(1)	(2)	(1)	1	(2)	–	(6)
Share of after-tax results of jointly controlled companies	–	–	–	59	108	–	21	188
Profit/(loss) before taxation	178	66	(33)	433	(266)	(14)	21	385
Taxation (charge)/credit	(27)	4	1	(62)	62	2	–	(20)
Profit/(loss) for the period	151	70	(32)	371	(204)	(12)	21	365
Depreciation and amortisation	92	58	22	31	(31)	14	–	186
Provision for impairment of stock and rotatable spares	–	1	–	–	–	–	–	1
Six months ended 30th June 2009								
External turnover	1,354	760	–	3,816	(3,816)	19	–	2,133
Inter-segment turnover	70	5	–	1	(1)	3	(49)	29
Total turnover	1,424	765	–	3,817	(3,817)	22	(49)	2,162
Operating profit/(loss)	149	211	(19)	445	(445)	(25)	–	316
Finance income	1	2	–	–	–	–	–	3
Finance charge	(1)	(1)	–	(1)	1	(3)	–	(5)
Share of after-tax results of jointly controlled companies	–	–	–	62	133	–	40	235
Profit/(loss) before taxation	149	212	(19)	506	(311)	(28)	40	549
Taxation (charge)/credit	(18)	(35)	1	(73)	73	7	(1)	(46)
Profit/(loss) for the period	131	177	(18)	433	(238)	(21)	39	503
Depreciation and amortisation	73	67	13	28	(28)	13	–	166
Provision for impairment of stock and rotatable spares	20	5	–	3	(3)	–	–	25

4. SEGMENT INFORMATION (continued)

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
<i>Year ended 31st December 2009</i>								
External turnover	2,702	1,260	–	7,033	(7,033)	36	–	3,998
Inter-segment turnover	116	5	–	2	(2)	9	(89)	41
Total turnover	2,818	1,265	–	7,035	(7,035)	45	(89)	4,039
Operating profit/(loss)	264	209	(43)	832	(832)	(45)	–	385
Finance income	1	5	1	–	–	–	–	7
Finance charge	(4)	(2)	(2)	(1)	1	(4)	–	(12)
Share of after-tax results of jointly controlled companies	–	–	–	104	259	–	57	420
Profit/(loss) before taxation	261	212	(44)	935	(572)	(49)	57	800
Taxation (charge)/credit	(33)	(20)	2	(129)	129	13	(2)	(40)
Profit/(loss) for the year	228	192	(42)	806	(443)	(36)	55	760
Depreciation and amortisation	156	126	26	59	(59)	26	–	334
Provision for impairment of stock and rotatable spares	26	5	–	8	(8)	–	–	31

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
				At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
<i>At 30th June 2010</i>								
Total segment assets	3,919	2,447	1,159	2,323	(2,323)	384	(126)	7,783
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	28	78	43	91	(91)	22	–	171
Total segment liabilities	1,007	515	775	929	(929)	353	(122)	2,528
<i>At 31st December 2009</i>								
Total segment assets	3,963	2,388	1,073	2,238	(2,238)	411	(192)	7,643
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	426	199	167	157	(157)	2	–	794
Total segment liabilities	1,140	539	659	916	(916)	369	(187)	2,520

4. SEGMENT INFORMATION (continued)

Reportable segments' assets are reconciled to total assets as follows:

Total segment assets

Unallocated: investment in jointly controlled companies

Unallocated: intangible assets – goodwill

Total assets

	30th June 2010 HK\$M	31st December 2009 HK\$M
Total segment assets	7,783	7,643
Unallocated: investment in jointly controlled companies	991	988
Unallocated: intangible assets – goodwill	30	30
Total assets	8,804	8,661

Reportable segments' liabilities are equal to total liabilities.

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

The Group's turnover derived from external customers:

In Hong Kong

From other countries

	Six months ended 30th June		Year ended 31st December
	2010 HK\$M	2009 HK\$M	2009 HK\$M
In Hong Kong	863	1,023	1,957
From other countries	1,186	1,139	2,082
	2,049	2,162	4,039
Turnover in HAECO and TAECO derived from a single external customer	831	989	1,891

Turnover in HAECO and TAECO derived from a single external customer

Total non-current assets other than financial instruments, deferred tax assets and retirement benefit assets:

In Hong Kong

In other countries (mainly in Mainland China)

	30th June 2010 HK\$M	31st December 2009 HK\$M
In Hong Kong	2,526	2,594
In other countries (mainly in Mainland China)	2,957	2,892
	5,483	5,486

5. OTHER NET (LOSSES)/GAINS

	Six months ended 30th June		Year ended 31st December	
	2010 HK\$M	2009 HK\$M	2009 HK\$M	
Net foreign exchange gains	–	22	40	
Fair value gains on derivative financial instruments:				
Forward foreign exchange contracts not qualifying for hedge accounting	–	2	–	
Loss on disposal of property, plant and equipment	(1)	(12)	(14)	
	(1)	12	26	

6. NET FINANCE CHARGE

	Six months ended 30th June		Year ended 31st December	
	2010 HK\$M	2009 HK\$M	2009 HK\$M	
Finance income:				
Short-term deposits and bank balances	4	3	7	
Finance charge:				
Bank loans	(6)	(5)	(12)	
Net finance charge	(2)	(2)	(5)	

7. TAXATION

	Six months ended 30th June		Year ended 31st December	
	2010 HK\$M	2009 HK\$M	2009 HK\$M	
Current taxation:				
Hong Kong profits tax	27	–	–	
Overseas tax	12	29	9	
Over-provisions in prior years	(11)	(8)	(8)	
	28	21	1	
Deferred taxation:				
Increase in deferred tax assets	(9)	(7)	–	
Increase in deferred tax liabilities	1	32	39	
	20	46	40	

Hong Kong profits tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of jointly controlled companies' tax charge of HK\$30 million (30th June 2009: HK\$41 million; 31st December 2009: HK\$70 million) is included in the share of after-tax results of jointly controlled companies shown in the consolidated income statement.

8. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK\$338 million (30th June 2009: HK\$430 million; 31st December 2009: HK\$688 million) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2009: 166,324,850; 31st December 2009: 166,324,850).

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

	Property, plant and equipment HK\$M	Leasehold land and land use rights HK\$M
Net book value:		
At 1st January 2010	4,618	317
Translation differences	10	2
Additions	157	–
Disposals	(7)	–
Depreciation, amortisation and impairment	(175)	(5)
At 30th June 2010	4,603	314

10. INTANGIBLE ASSETS

	Computer software HK\$M	Goodwill HK\$M	Technical licences HK\$M
Net book value:			
At 1st January 2010	3	30	518
Translation differences	1	–	4
Additions	13	–	1
Amortisation	–	–	(4)
At 30th June 2010	17	30	519

11. JOINTLY CONTROLLED COMPANIES

The Group's share of the results, assets and liabilities of the jointly controlled companies for the period ended and at 30th June, and, for the year ended and at 31st December are as follows:

	HAESL			Others			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2010 HK\$M	2009 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M	2009 HK\$M
Turnover	1,526	1,718	3,166	156	178	329	1,682	1,896	3,495
Operating expenses	(1,357)	(1,518)	(2,791)	(132)	(130)	(260)	(1,489)	(1,648)	(3,051)
Operating profit	169	200	375	24	48	69	193	248	444
Net finance charge	(1)	–	(1)	(1)	–	–	(2)	–	(1)
Share of after-tax results of jointly controlled companies	27	28	47	–	–	–	27	28	47
Profit before taxation	195	228	421	23	48	69	218	276	490
Taxation	(28)	(33)	(58)	(2)	(8)	(12)	(30)	(41)	(70)
Profit for the period	167	195	363	21	40	57	188	235	420
Dividends paid/declared	172	131	350	18	9	42	190	140	392
Net assets employed:									
Non-current assets	501	460	468	326	220	301	827	680	769
Current assets	599	684	628	228	195	174	827	879	802
	1,100	1,144	1,096	554	415	475	1,654	1,559	1,571
Current liabilities	(280)	(375)	(313)	(245)	(116)	(171)	(525)	(491)	(484)
Non-current liabilities	(138)	(35)	(99)	–	–	–	(138)	(35)	(99)
	682	734	684	309	299	304	991	1,033	988
Financed by:									
Shareholders' equity	682	734	684	309	299	304	991	1,033	988

12. RETIREMENT BENEFITS

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

	Local Scheme HK\$M	Expatriate Scheme HK\$M	Total HK\$M
At 1st January 2010	221	51	272
Increase due to:			
Total (expense charged)/income credited	(13)	1	(12)
Contributions paid	22	–	22
At 30th June 2010	230	52	282

13. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	30th June 2010 HK\$M	31st December 2009 HK\$M	30th June 2010 HK\$M	31st December 2009 HK\$M
Forward foreign exchange contracts:				
Cash flow hedges	10	17	5	15
Less: non-current portion				
Forward foreign exchange contracts:				
Cash flow hedges	3	4	–	–
Current portion	7	13	5	15

The notional principal amounts of the outstanding forward foreign exchange contracts at 30th June 2010 were HK\$462 million (31st December 2009: HK\$726 million).

14. TRADE AND OTHER RECEIVABLES

The credit terms given to customers vary and are generally based on their individual financial strength. Credit evaluations of trade receivables are performed periodically to minimise credit risk associated with receivables.

	30th June 2010 HK\$M	31st December 2009 HK\$M
Trade receivables	413	330
Less: provision for impairment of receivables	(1)	(2)
	412	328
Amounts due from jointly controlled companies	39	33
Amounts due from related parties	109	49
Other receivables and prepayments	205	126
	765	536
The ageing analysis of trade receivables is as follows:		
Current	212	177
Up to 3 months overdue	118	78
3 to 6 months overdue	21	5
Over 6 months overdue	62	70
	413	330

The above includes the receivables due from OASIS Hong Kong Airlines Limited arising on various services performed by the Group. OASIS Hong Kong Airlines Limited and OASIS Growth and Income Investments Limited entered into liquidation on 11th June 2008. In accordance to a consent summons filed jointly together with the Provisional Liquidator, which was granted by the court in early May 2008, an amount of HK\$78 million from the net proceeds of aircraft sales had been deposited into a separate bank account pending determination of the Group's claim by the court.

15. TRADE AND OTHER PAYABLES

	30th June 2010 HK\$M	31st December 2009 HK\$M
Trade payables	104	77
Amounts due to jointly controlled companies	–	2
Amounts due to related parties	27	21
Other payables and accruals	651	889
	782	989
The ageing analysis of trade payables is as follows:		
Current	97	70
Up to 3 months overdue	7	7
	104	77

16. SHARE CAPITAL

During the period under review, no purchase, sale or redemption of the Company's shares has been effected on the Hong Kong Stock Exchange. At 30th June 2010, 166,324,850 shares were in issue (31st December 2009: 166,324,850 shares).

17. RESERVES

	Revenue reserve HK\$M	Capital redemption reserve HK\$M	Exchange translation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2010	4,980	19	11	1	5,011
Total comprehensive income for the period	338	–	13	1	352
Previous year's final dividend paid	(249)	–	–	–	(249)
At 30th June 2010	5,069	19	24	2	5,114

18. CAPITAL COMMITMENTS

	30th June 2010 HK\$M	31st December 2009 HK\$M
Contracted but not provided for in the financial statements	224	201
Authorised by Directors but not contracted for	735	1,182
	959	1,383

Capital commitments mainly relate to the construction of a sixth hangar by TAECO and an engine overhaul facility by TEXL at Xiamen, Mainland China.

19. FINANCIAL GUARANTEES

The Company has guaranteed the drawn components of bank loans of a subsidiary company. At 30th June 2010, the face values of liabilities guaranteed were HK\$537 million (31st December 2009: HK\$448 million).

20. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

The Group has a number of transactions with its related parties and connected persons. All trading transactions are conducted in the normal course of business at prices and on terms similar to those charged to/by and contracted with other third party customers/suppliers of the Group. The aggregated transactions which are material to the Group and which have not been disclosed elsewhere in the interim report are summarised below:

	Note	Jointly controlled companies			Other related parties			Total		
		Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
		2010 HK\$M	2009 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M	2009 HK\$M
Revenue from provision of services:										
Cathay Pacific Airways Limited Group	a	-	-	-	831	989	1,891	831	989	1,891
Other revenue	b	27	29	49	-	-	-	27	29	49
		27	29	49	831	989	1,891	858	1,018	1,940
Purchases:										
Costs payable to John Swire & Sons (H.K.) Limited under services agreement										
- Service fees payable during the period	a				10	12	20	10	12	20
- Expenses reimbursed at cost	a				22	20	36	22	20	36
Subtotal	a				32	32	56	32	32	56
- Share of administrative services					1	2	4	1	2	4
Total					33	34	60	33	34	60
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited										
					2	2	4	2	2	4
Purchases from Cathay Pacific Airways Limited Group										
					6	11	16	6	11	16
Other purchases	c	3	2	3	8	4	9	11	6	12
		3	2	3	49	51	89	52	53	92

Notes:

- These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.
- Other revenue from jointly controlled companies mainly came from the provision to HAESL of engine component repairs and facilities rental on a commercial arm's length basis and of certain administrative services charged at cost.
- Purchases from jointly controlled companies comprised mainly aircraft component overhaul charges by HAESL.
- Amounts due from and due to jointly controlled companies and other related parties at 30th June 2010 are disclosed in note 14 and note 15 to the accounts.

Information Provided in Accordance with the Listing Rules

CORPORATE GOVERNANCE

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

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

As disclosed in the Company’s announcement dated 7th June 2010, A.K.Y. Lam, an independent non-executive Director of the Company, advised the Chief Executive Officer of the Company that he placed an order on 4th June 2010 for the acquisition of 4,000 shares of the Company on the Stock Exchange at a price of HK\$84 per share. A.K.Y. Lam resigned as a Director of the Company on 6th June 2010. On specific enquiries made and save as disclosed above, all Directors have confirmed that, in respect of the accounting period covered by the Interim Report, they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions. Directors are reminded at least twice annually regarding the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions.

The 2010 interim results have been reviewed by the Audit Committee of the Company.

DIRECTORS’ PARTICULARS

Changes in the particulars of the Directors are set out as follows:

1. A.K.W. Tang has been appointed Chairman of Taikoo (Xiamen) Aircraft Engineering Company Limited.

DIRECTORS’ INTERESTS

At 30th June 2010, the register maintained under Section 352 of the Securities and Futures Ordinance (“SFO”) showed that Directors held the following interests in the shares of Hong Kong Aircraft Engineering Company Limited and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited and Swire Pacific Limited:

Hong Kong Aircraft Engineering Company Limited	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	3,782,886	3,782,886	2.27	1
D.C.L. Tong	20,000	–	–	20,000	0.01	

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
John Swire & Sons Limited						
Ordinary Shares of £1						
M.B. Swire	2,759,273	–	19,222,920	21,982,193	21.98	2
8% Cum. Preference Shares of £1						
M.B. Swire	837,101	–	5,655,441	6,492,542	21.64	2
	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
Swire Pacific Limited						
'A' shares						
P.A. Johansen	31,500	–	–	31,500	0.0035	
C.D. Pratt	41,000	–	–	41,000	0.0045	
M.B. Swire	58,791	–	211,747	270,538	0.0299	2
'B' shares						
P.A. Johansen	200,000	–	–	200,000	0.0067	
C.D. Pratt	100,000	–	–	100,000	0.0033	
M.B. Swire	2,241,483	–	6,451,632	8,693,115	0.2902	2

Notes:

- The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.*
- M.B. Swire is a trustee of trusts which held 10,766,080 ordinary shares and 3,121,716 preference shares in John Swire & Sons Limited and 211,747 'A' shares and 5,550,900 'B' shares in Swire Pacific Limited included under "Trust interest" and does not have any beneficial interest in those shares.*

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

SUBSTANTIAL SHAREHOLDERS' AND OTHERS' INTERESTS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 30th June 2010 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	Number of shares	Percentage of issued capital (%)	Type of interest (Notes)
1. Swire Pacific Limited	101,403,472	60.97	Beneficial owner ⁽¹⁾
2. John Swire & Sons Limited	101,403,472	60.97	Attributable interest ⁽²⁾

Notes: At 30th June 2010:

- Swire Pacific Limited was interested in 101,403,472 shares of the Company as beneficial owner.*
- John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 101,403,472 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's interests in shares of Swire Pacific Limited representing approximately 40.07% of the issued share capital and approximately 57.25% of the voting rights.*

Financial Calendar and Information for Investors

FINANCIAL CALENDAR 2010

Interim Report sent to shareholders	13th August
Shares trade ex-dividend	2nd September
Share registers closed	6th – 10th September
Interim dividend payable	21st September
Annual results announcement	March 2011
Annual General Meeting	May 2011

REGISTERED OFFICE

35th Floor, Two Pacific Place
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(with effect from 9th August 2010, the registered office will be changed to 33rd Floor, One Pacific Place, 88 Queensway, Hong Kong)

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