HAECO

Hong Kong Aircraft Engineering Company Limited
Annual Report 2010

Stock Code: 00044

60th ANNIVERSARY

OUR 60th ANNIVERSARY

Over the past 60 years, HAECO has grown to become a leading Maintenance, Repair and Overhaul ("MRO") service provider in the world. The HAECO Group today offers a range of services encompassing airframe maintenance, cabin reconfiguration, engine overhaul services, component services, line maintenance, fleet technical management, freighter conversion and technical training.

Milestones

2000s

- Opened second and third hangars at HKIA in 2006 and 2009 respectively.
- TAECO performed its first Boeing 747-200 passenger to freighter conversion.
- TAECO opened its fifth hangar in 2007, and is building its sixth.
- Opened maintenance facility in Singapore (SHAECO) in 2007.
- Formed TALSCO in Xiamen in 2007 to provide landing gear overhaul and repair services.
- Formed TEXL in Xiamen in 2008 to provide GE engine overhaul services.
- Formed Taikoo Spirit in Xiamen in 2008 to provide component repair and overhaul services.

1990s

- Formed TAECO in Xiamen in 1993.
- Formed HAESL with Rolls-Royce in 1998.
- Relocated to brand new HK$1.4 billion facility at Hong Kong International Airport (HKIA) in Chek Lap Kok in 1998.

- Taikoo Sichuan opened in 2010 to provide heavy maintenance on Airbus aircraft in Chengdu, Mainland China.

2010......Celebrated its

1980s

- Amount of business from international airlines increased.
- Performed first aircraft conversion – upgraded a L1011-1 series to L1011-150.

1970s

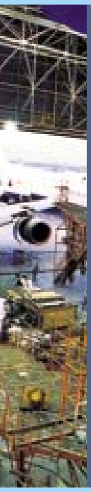
- Acquired capabilities on L1011 and RB211 engines.

1960s

- Floated on the Hong Kong stock exchange in 1965.
- Began construction of Asia's largest hangar in 1968.

1950s

- Established in November 1950 by the merger of Pacific Air Maintenance & Supply (PAMAS) and Jardine Air Maintenance Company (JAMCO).



60th year of operation in Hong Kong.

Financial Highlights

		2010	2009	Change
Results				
Turnover	*HK$ Million*	**4,266**	4,045	+5.5%
Net operating profit	*HK$ Million*	**389**	380	+2.4%
Share of after-tax results of jointly controlled companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	*HK$ Million*	**380**	363	+4.7%
– Other jointly controlled companies	*HK$ Million*	**27**	57	-52.6%
Profit attributable to the Company's shareholders	*HK$ Million*	**701**	688	+1.9%
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	*HK$*	**4.21**	4.14	+1.9%
Interim and final dividends per share	*HK$*	**2.10**	2.00	+5.0%
Financial Position				
Net borrowings	*HK$ Million*	**176**	143	+23.1%
Gearing ratio	*%*	**2.7**	2.3	+0.4%pt
Total equity	*HK$ Million*	**6,484**	6,141	+5.6%
Equity attributable to the Company's shareholders per share	*HK$*	**33.45**	31.13	+7.5%
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	**481**	729	-34.0%
Net cash inflow before financing activities	*HK$ Million*	**307**	39	+687.2%

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 59.

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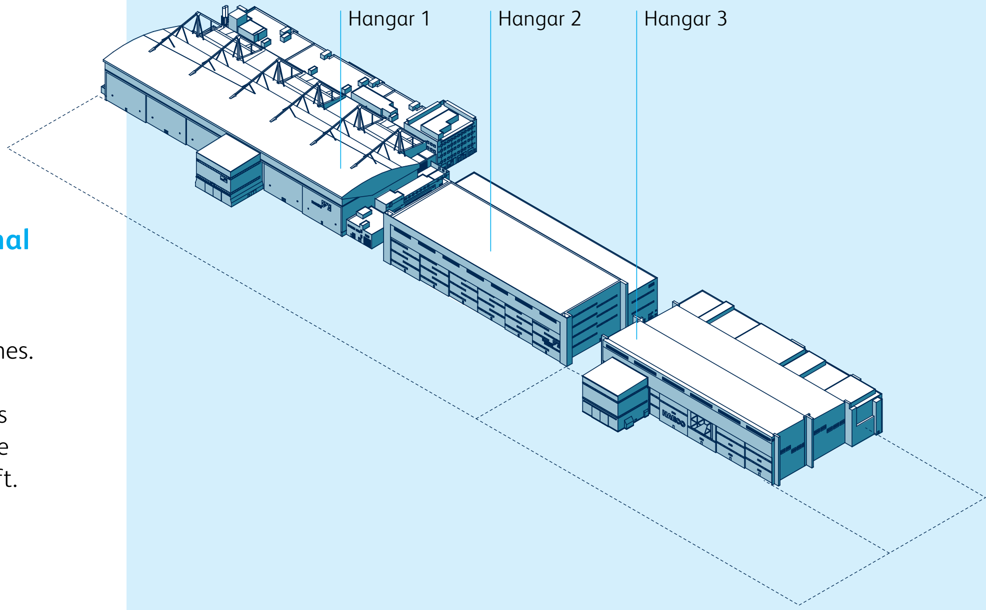
Group Profile

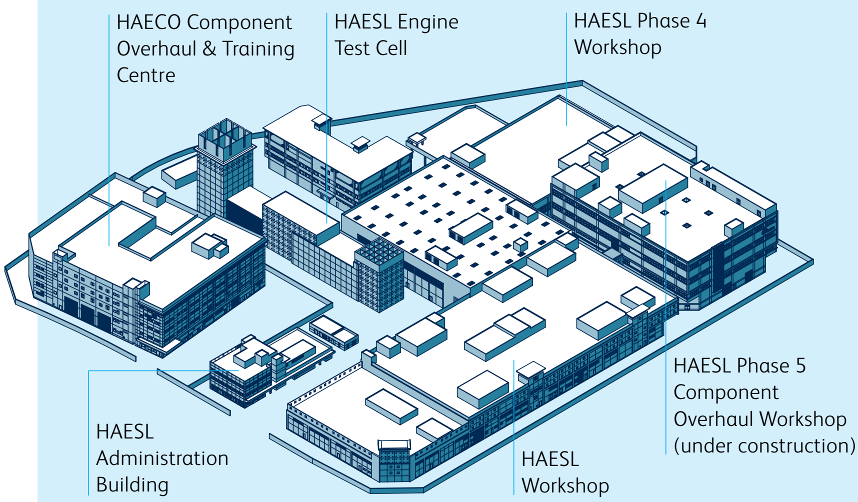
Hong Kong International Airport, Hong Kong

HAECO provides line maintenance for over 70 airlines. It also performs heavy maintenance in three hangars which have a capacity for nine fully docked wide body aircraft.



Tseung Kwan O, Hong Kong

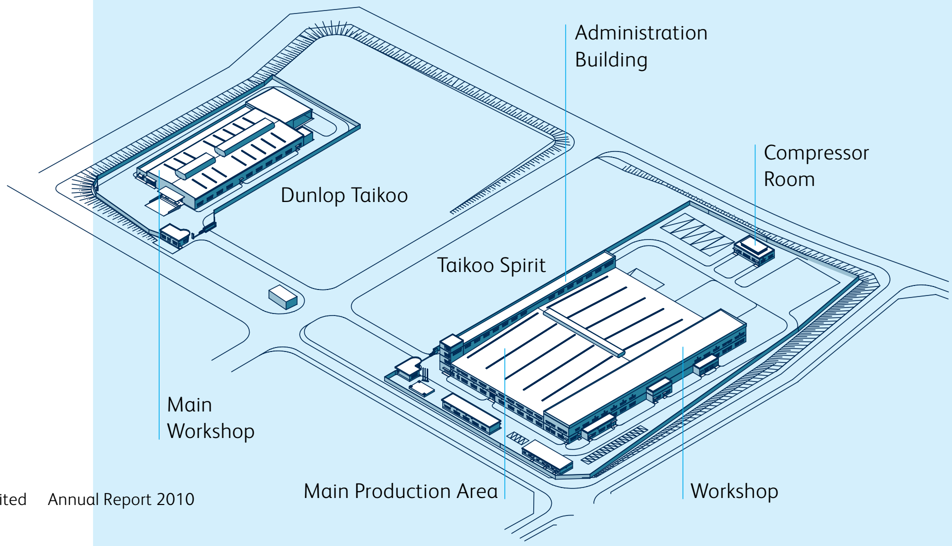
HAESL overhauls Rolls-Royce Trent and 524 engines, and is constructing an additional component repair extension. HAECO has a 7,000 square metre facility performing component overhaul and training.

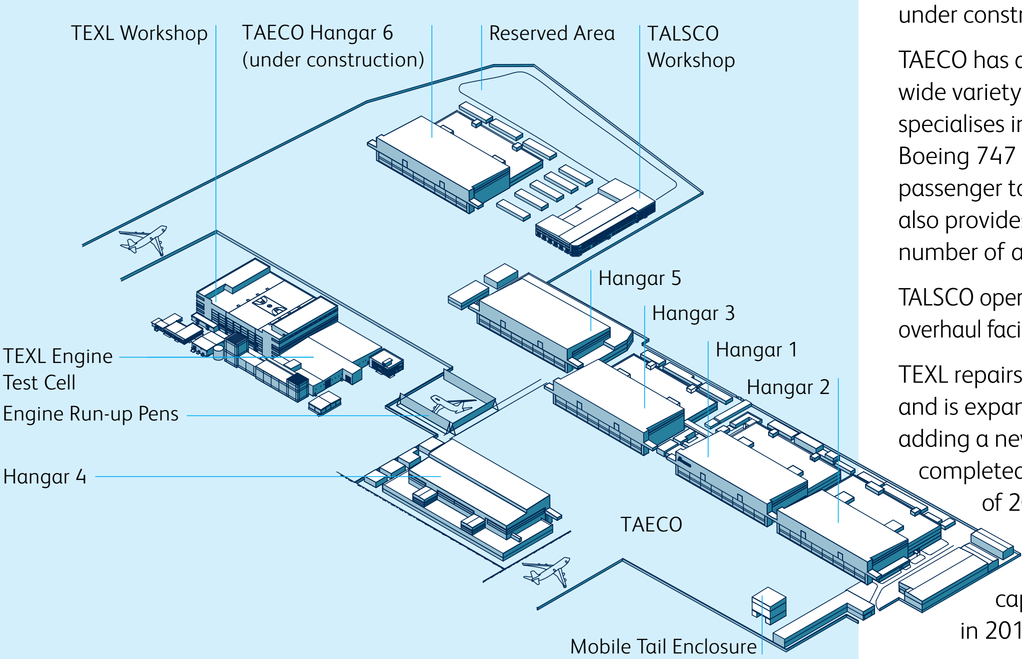


Jinjiang, Fujian Province, Mainland China

Taikoo Spirit repairs aircraft parts and systems.

Dunlop Taikoo sells and retreads aircraft tyres.





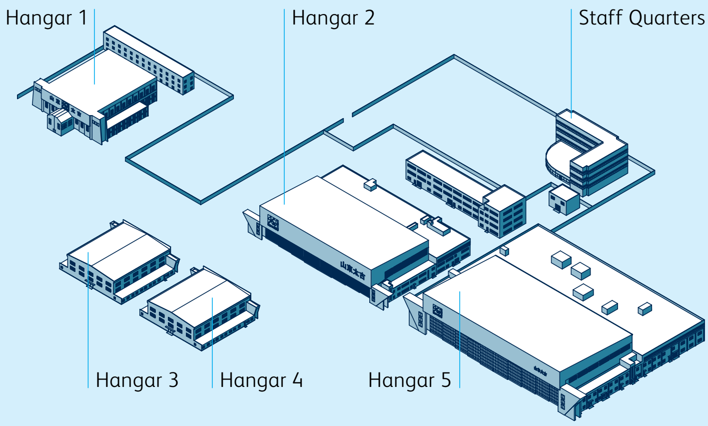
Xiamen, Fujian Province, Mainland China

TAECO's facilities include five hangars which have a total capacity of ten wide body aircraft fully docked and a training centre. Its sixth hangar is under construction.

TAECO has approvals to handle a wide variety of aircraft types. It specialises in heavy maintenance on Boeing 747 aircraft including passenger to freighter conversions. It also provides line maintenance at a number of airports in Mainland China.

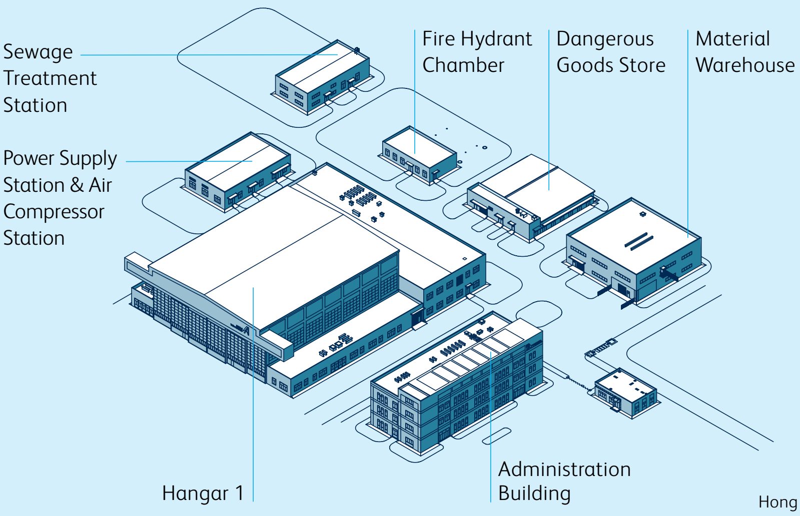
TALSCO operates a landing gear overhaul facility next to TAECO's hangars.

TEXL repairs General Electric engines, and is expanding its facility by adding a new building which will be completed by the second quarter of 2011. Engine overhaul capability development is continuing, with full capability being available in 2013.



Jinan, Shandong Province, Mainland China

STAECO provides line and base maintenance to Shandong Airlines and specialises in performing heavy maintenance and passenger to freighter conversions for Boeing 737 aircraft for other airlines. Its five hangars can fully dock ten Boeing 737 aircraft.



Chengdu, Sichuan Province, Mainland China

Taikoo Sichuan provides base maintenance with a one bay hangar. Construction of a second hangar will start shortly.

Chairman's Letter

The HAECO Group reported an attributable profit of HK$701 million in 2010, 2% higher than the attributable profit of HK$688 million reported in 2009. Your Directors have recommended a final dividend for the year of HK$1.65 per share which, together with the interim dividend of HK$0.45 per share paid on 21st September 2010, results in a total distribution for the year of HK$2.10 per share, compared to total dividends of HK$2.00 per share in 2009.

As expected, 2010 was a mixed and challenging year for the Group. The results of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") were adversely affected by reductions in demand for Boeing 747 passenger to freighter conversions and for airframe heavy maintenance. These factors were reflected in reduced utilisation of TAECO's hangars, a 15% reduction in TAECO's manhours sold. The new joint ventures in Mainland China suffered from start-up losses as expected. On the other hand, demand for line and heavy maintenance services in Hong Kong was strong, reflecting the general recovery in the aviation business. HAECO handled 12% more aircraft movements in Hong Kong in 2010 than in 2009 and sold 15% more manhours for airframe heavy maintenance. The results of the Group's engine overhaul jointly controlled companies (Hong Kong Aero Engine Services Limited ("HAESL") and Singapore Aero Engine Services Pte. Limited ("SAESL")) benefited from a stronger than expected recovery in demand for engine overhaul services, especially in the second half of the year.

The Group continued to invest in both Hong Kong and Mainland China in order to expand its facilities and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure for 2010 was HK$432 million. Committed capital expenditure at the end of the year was HK$934 million. Taikoo Sichuan Aircraft Engineering Services Company Limited ("Taikoo Sichuan"), in which the Group holds a 45.27% effective interest, opened its first hangar in Chengdu in August.

In September, the Company acquired an additional 2% shareholding in TAECO for HK$62 million. The Company now owns 58.55% of TAECO.

The prospects for the Group in 2011 remain mixed. Assuming continued strength in the aviation industry generally, demand for HAECO's heavy and line maintenance services in Hong Kong is expected to remain strong in 2011. HAESL is also expected to perform well. TAECO's base maintenance operations are expected to recover modestly. The joint ventures in Mainland China are expected to be adversely affected by continued start up losses and by inflation and increased competition.

In 2010, HAECO celebrated the 60th anniversary of its commencement of operations in Hong Kong. During the year, HAECO organised a number of events and activities to communicate its past successes to staff and customers. These successes were largely due to the commitment and reliability of HAECO's professional work force. HAECO will continue to spend significant amounts on training and systems with a view to improving operational efficiency. On behalf of the shareholders, I would like to thank all staff for their hard work and continuing support.

Christopher Pratt

Chairman

Hong Kong, 8th March 2011

2010 in Review

2010 was an eventful year for the Group. It celebrated its 60th anniversary, expanded capacity and the services which it offered and it became a subsidiary company of Swire Pacific Limited ("Swire Pacific").

Shareholdings in HAECO

In June 2010, Swire Pacific acquired the remaining 15% interest which Cathay Pacific Airways Limited ("Cathay Pacific") had in HAECO. As a result, Swire Pacific's interest in HAECO increased from 45.96% to 60.96%, giving Swire Pacific majority control of HAECO. In accordance with the Hong Kong Code on Takeovers and Mergers, Swire Pacific subsequently made a mandatory unconditional general offer for the shares in HAECO which it did not own, at the same price per share (HK$105) as that at which Cathay Pacific's remaining interest in HAECO was acquired. Shareholders holding 14.89% of the issued share capital of HAECO accepted the general offer, with the result that, at the close of the general offer, Swire Pacific held 75.85% of the issued share capital of HAECO. Following the close of the general offer, Swire Pacific disposed of shares amounting to 0.86% of the issued share capital of HAECO, so reducing Swire Pacific's percentage holding of such share capital to 74.99%. This disposal was made in the light of the requirement under the Hong Kong Stock Exchange Listing Rules that not less than 25% of the issued share capital of HAECO must be in public hands.

Technical Training

HAECO and **TAECO** continued to provide extensive training services to their own staff and to airline customers at the training centres in Hong Kong and Xiamen.

In 2010, **HAECO** established the ability to provide training in the maintenance and repair of Boeing 747-8 aircraft, in order to meet the operational needs of Cargolux, Cathay Pacific and Global Supply Systems, and of Airbus A380 aircraft in order to meet the operational needs of Emirates. HAECO also provided training for Jetstar and Metrojet.

In 2010, **TAECO** trained over 1,000 individuals from airlines and maintenance and repair organisations in Mainland China, Malaysia, Sri Lanka, Bahrain and Pakistan.

HAECO provides a centre in Hong Kong for conducting examinations leading to the obtaining of Hong Kong Aircraft Maintenance Licences and has done so for more than four years. **TAECO** is an approved organisation for carrying out basic aircraft maintenance licence examinations for civil aviation authorities in Mainland China and Europe.

Competency and Technology

The Group is well known in the aviation industry for its extensive capability in providing comprehensive maintenance services and has continued to develop its maintenance and related capabilities.

TAECO has recently been approved by Airbus as a cabin completion centre for its executive and business jets. TAECO's Airbus narrow body VIP mock-up was completed in November 2010.

TAECO was approved as a design organisation by the civil aviation authority of Mainland China in December 2010. The company intends to obtain approval from the Japanese civil aviation authority to do work on Boeing 777 aircraft in 2011.

HAESL developed 23 Rolls-Royce component repair schemes in 2010.

Singapore HAECO Pte. Limited ("SHAECO") received approvals from the civil aviation authorities of Australia, the Philippines, Thailand, Malaysia and Indonesia to perform line maintenance work on Airbus A320 aircraft in all these jurisdictions and on Boeing 737-300 aircraft in Indonesia.

Taikoo Engine Services (Xiamen) Company Limited ("TEXL") received approvals from the civil aviation authorities of Mainland China, the European Union and the United States to undertake work (including strip and build, performing minor repairs and testing) on the GE90 series of engines.

Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO") was permitted to undertake aircraft maintenance work by the Malaysian and Indonesian civil aviation authorities. TALSCO already has corresponding permissions from the relevant authorities in Mainland China, the United States and the European Union and intends to obtain a corresponding permission from the Japanese authorities shortly.

Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited ("Dunlop Taikoo") received approvals from the civil aviation authorities of Indonesia and Mainland China to retread aircraft tyres made by the Dunlop company. Dunlop Taikoo also received approvals from the civil aviation authorities of the European Union to retread certain tyres produced by the Bridgestone and Goodyear companies.

Honeywell TAECO Aerospace (Xiamen) Company Limited ("Honeywell TAECO") has expanded its capability for repairing mechanical components.

The Korean civil aviation authority has approved **Taikoo (Shandong) Aircraft Engineering Company Limited ("STAECO")** as a provider of base maintenance services.

Taikoo Sichuan received approval from the civil aviation authority of Mainland China to perform maintenance on Airbus A320 aircraft. Taikoo Sichuan expects to receive further approvals in 2011.

Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("Taikoo Spirit") received approvals from civil aviation authorities in the United States and Mainland China to overhaul thrust reversers. Cathay Pacific and Hainan Airlines are customers.

Investment and Development

In April 2010, **HAECO** signed a letter of intent with Cathay Pacific in relation to the provision of inventory management services for Cathay Pacific's new Boeing 747-8 Freighters, which are to be delivered between 2011 and 2013.

TAECO is constructing its sixth double bay wide body hangar. It is due to open in mid 2011. In September 2010, TAECO entered into a maintenance agreement with Lufthansa Cargo to provide airframe heavy maintenance services for its MD-11 fleet from 2010 to 2013.

Taikoo Sichuan opened its first hangar in August 2010. Construction of a second hangar will start shortly, with opening scheduled in mid 2012.

SHAECO entered into a line maintenance contract with Jetstar in June 2010. SHAECO has invested in facilities, equipment and people to enable it to provide full line maintenance services for Jetstar Asia and Jetstar Australia in Singapore.

HAESL is constructing a 13,500 square metre extension to its existing component repair facilities. The extension is expected to commence operations in mid 2011.

TEXL completed work on its first GE90-115B engine for Cathay Pacific in July 2010. The company is investing in the buildings and equipment necessary to enable it to overhaul and repair GE90-11XB engines. This investment should be completed in the second quarter of 2011.

TALSCO entered into contracts with the Boeing Company and Cathay Pacific for the overhaul of landing gear on Boeing 747-400 aircraft.

In 2010 **Dunlop Taikoo** started to deliver retreads to customers in Asia (outside Mainland China) and Australia and in January 2011 started to deliver retreads to European operators under sub-contracting arrangements with the Dunlop company. Dunlop Taikoo's retreads are being tested by airlines in Mainland China.

Honeywell TAECO has undertaken its first 131-9A series auxiliary power unit repair.

Taikoo Spirit invested US$1.6 million in thrust reverser capability in 2010 and entered into an agreement with Hainan Airlines relating to CFM567-7 thrust reversers in December 2010.

Hong Kong Operations

An average of
278 aircraft
handled per day on
line maintenance

Airframe heavy
maintenance
manhours sold were
2.74 million in
the year

44%
increase in
profit

HAECO's Hong Kong operations comprise airframe heavy maintenance and line maintenance at Hong Kong International Airport, component overhaul at Tseung Kwan O, third party inventory technical management and fleet technical management.

Review of Operations

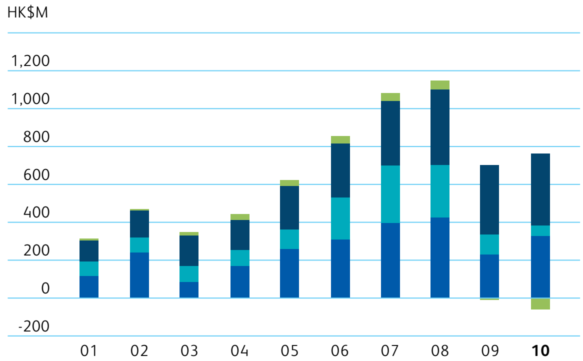
HAECO and TAECO sold 5.26 million manhours for airframe heavy maintenance during 2010. More airframe heavy maintenance work was done at HAECO and less at TAECO than in 2009. Both HAECO and TAECO did more line maintenance, reflecting increased aircraft movements.

The profit attributable to the Company's shareholders comprises:

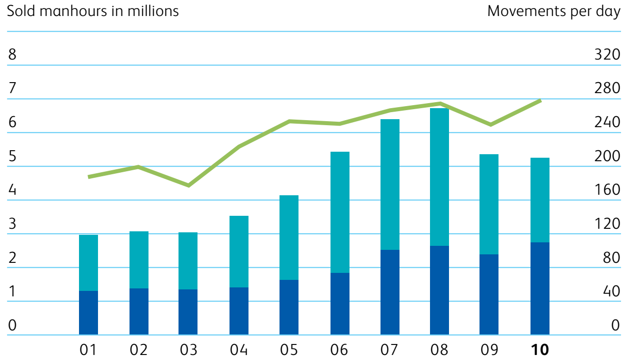
	2010	2009	Change
	HK$M	HK$M	
HAECO	**327**	227	+44%
Share of:			
TAECO	**53**	106	-50%
HAESL and SAESL	**380**	363	+5%
Other subsidiary and jointly controlled companies	**(59)**	(8)	-638%
	701	688	+2%

	2010	2009	Change
Airframe heavy maintenance sold manhours (per year in millions)			
HAECO	**2.74**	2.39	+15%
TAECO	**2.52**	2.98	-15%
Line maintenance movements in Hong Kong (per day)	**278**	249	+12%

Attributable Profits by Company



Airframe Heavy Maintenance Sold Manhours and Line Maintenance Aircraft Movements



HAECO

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

Airframe Maintenance

The airframe heavy maintenance division does scheduled maintenance checks, modifications and overhaul work on a wide variety of aircraft types. HAECO competes on turnround time and quality of workmanship with other maintenance, repair and overhaul facilities worldwide. Manhours sold increased from 2.39 million in 2009 to 2.74 million in 2010. The increase reflected robust demand for airframe heavy maintenance services following the recovery of the aviation industry. HAECO was able to meet this increase in demand partly as a result of the opening of a third hangar at HKIA in September 2009. Approximately 67% of airframe heavy maintenance work was for airlines based outside Hong Kong.

Line Maintenance

The line maintenance division provides technical and non-technical line maintenance services to airlines operating at HKIA. There was an increase in aircraft movements at HKIA in 2010 as the demand for cargo and passenger services grew. The average number of movements handled by HAECO was 278 per day in 2010, a 12% increase from 2009.

Component Overhaul

The component overhaul division occupies 7,000 square metres of workshop space at Tseung Kwan O. Despite competition from the equipment manufacturers, who are engaging more in the component overhaul business as part of their after sales service, HAECO has continued to invest with a view to enhancing its capabilities in this business. Manhours sold for component overhaul activities were 0.27 million in 2010, a 3% reduction from 2009. Utilisation of the component overhaul facilities during the year was reasonable.

Inventory Technical Management and Fleet Technical Management

HAECO provides inventory technical management services for rotable spares for Airbus A300-600F, A319, A320 and A330 aircraft and for Boeing 747-200F aircraft. The Company also provides fleet technical management services. Such services are provided for Airbus A319 and A320 aircraft and for Boeing 747-400F and 747-200F aircraft.

Total headcount for the Hong Kong operations increased by 7% during the year to 4,967 at the end of 2010.

TAECO

TAECO performs airframe heavy maintenance and passenger to freighter conversions using five wide body double bay hangars at Xiamen Gaoqi International Airport, with a sixth wide body double bay hangar due to open in mid 2011. TAECO also performs line maintenance operations in Beijing, Tianjin, Shanghai and Xiamen, handling an average of 48 aircraft movements per day in 2010.

TAECO reported a significant reduction in profitability in 2010, with profit attributable to the Company's shareholders down by 50% to HK$53 million. Its facilities were severely under-utilised during the year; the passenger to freighter conversion business remained weak, with only three Boeing 747-400 aircraft being converted, and major customers for other airframe heavy maintenance required less work because of capacity reductions. Manhours sold decreased by 15% from 2.98 million in 2009 to 2.52 million in 2010. Despite measures taken to contain costs, the fact that a significant proportion of costs are fixed meant that profit fell substantially.

At the end of 2010, TAECO's headcount totalled 4,739, a 7% reduction compared to 5,094 at the end of 2009.

HAESL

HAESL (45% owned) repairs and overhauls Rolls-Royce engines and engine components at its facility at Tseung Kwan O. HAESL recorded a 1% increase in profit attributable to the Company's shareholders to HK$320 million. A small reduction in volume was offset by a favourable work mix and by measures taken to control costs. The return to service of parked Cathay Pacific Boeing 747-400 aircraft resulted in increased work in the second half of 2010 and the increase is expected to continue in 2011.

SAESL, in which HAESL has a 20% interest, reported a strong profit growth in 2010, assisted by a faster than expected recovery in regional airline activity. A 12,000 square metre extension of SAESL's facilities was opened in February 2010.

The Group's share of the after-tax profit of HAESL, including its interest in SAESL, increased by 5% in 2010 to HK$380 million.

Other Principal Subsidiary and Jointly Controlled Companies

The other principal subsidiary and jointly controlled companies' profit attributable to its shareholders comprises:

	2010	2009	Change
	HK$M	HK$M	
TEXL	**(53)**	(34)	-56%
TALSCO	**(19)**	(20)	+5%
Other subsidiary and jointly controlled companies	**13**	46	-72%
	(59)	(8)	-638%

- TEXL (owned 75.01% by HAECO and 10% by TAECO), a Xiamen-based engine overhaul facility, has a service agreement with General Electric for overhauling GE90 engines. Operations commenced in June 2010. Eight quick turn engines and one test only engine were completed in the remainder of the year. TEXL made a loss in 2010 because of the pre-operating costs and the light workscope of the engines completed in its first year of operation.

- TALSCO (owned 50% by HAECO and 10% by TAECO) provides landing gear overhaul services in Xiamen. TALSCO can overhaul landing gear for Boeing 737, 747, 757 and 767 aircraft and is developing the capability to overhaul landing gear for Boeing 777 aircraft. Although more landing gears were overhauled in 2010 than in 2009, the utilisation of the company's capacity was still low and it reported a similar loss in 2010.

- SHAECO (100% owned) provides line maintenance services at Changi Airport in Singapore. SHAECO's performance declined in 2010 due to higher staff costs incurred in preparation for new contracts.

- Dunlop Taikoo (owned 28% by HAECO and 9% by TAECO) sells and retreads aircraft tyres at Jinjiang in Fujian Province. A loss was reported in 2010, the first full year of operation. This reflected strong competition and a delay in obtaining tyre retreading approvals.

- Goodrich Asia-Pacific Limited (49% owned) refurbishes carbon brakes and wheel hubs at Fanling in Hong Kong. Sales and profits increased modestly in 2010.

- Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited (35% owned by TAECO) overhauls fuel control systems and pumps in Xiamen. Sales and profits increased in 2010.

- Honeywell TAECO (owned 25% by HAECO and 10% by TAECO) overhauls auxiliary power units and other rotable spares. Profits decreased in 2010 because of higher costs and the expiry of a tax holiday.

- STAECO (owned 30% by HAECO and 10% by TAECO) provides airframe heavy maintenance services at Jinan in Shandong Province for Boeing 737 and other narrow body aircraft. It also undertakes Boeing 737 passenger to freighter conversions. Sales and profits decreased in 2010 because of airlines' building up their own heavy maintenance capability and a loss of customers following airline mergers in Mainland China.

- Taikoo Sichuan (owned 40% by HAECO and 9% by TAECO) provides airframe heavy maintenance services at Chengdu in Sichuan Province for Airbus aircraft. The company opened its first hangar in August. A loss was incurred in its first year of operation.

- Taikoo Spirit (owned 41.8% by HAECO and 10.76% by TAECO) repairs aircraft parts and systems at Jinjiang in Fujian Province. A loss was reported in 2010, its first year of operation.

Mainland Operations

Mainland operations include airframe heavy maintenance, line maintenance, engine overhaul, landing gear overhaul, component overhaul and aircraft tyres retread. Airframe heavy maintenance services are provided in Xiamen, Jinan and Chengdu while line maintenance services are provided in Beijing, Tianjin, Shanghai and Xiamen.

TAECO's 6th hangar is scheduled to open in mid 2011

Geographical Coverage

TEXL's overhaul and repair facilities are expected to be completed in the 2nd quarter of 2011

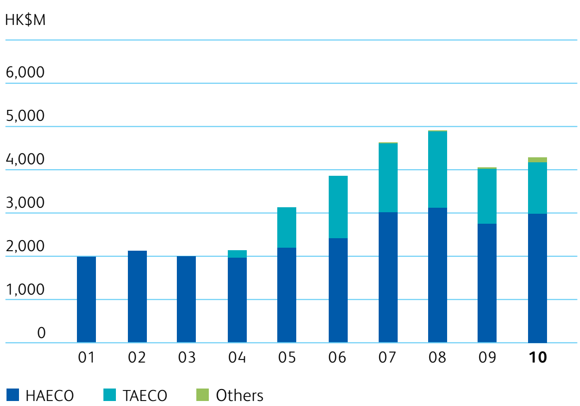
Financial Review

Turnover

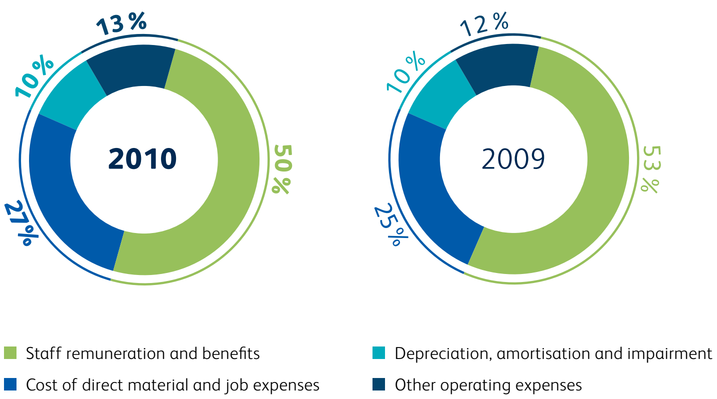
Turnover increased by 6% to HK$4,266 million, with an 8% increase in HAECO's turnover in Hong Kong being partly offset by a 7% decrease in that of TAECO.

	2010	2009	Change
	HK$M	HK$M	
HAECO	**2,966**	2,750	+8%
TAECO	**1,177**	1,260	-7%
Others	**123**	35	+251%
	4,266	4,045	+6%

Turnover



Operating Expenses



Operating Expenses

Operating expenses increased by 5% to HK$3,890 million in line with the business growth.

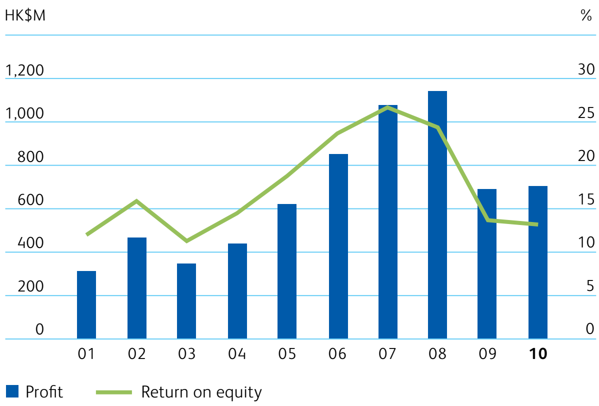
	2010	2009	Change
	HK$M	HK$M	
Staff remuneration and benefits	**1,963**	1,980	-1%
Cost of direct material and job expenses	**1,048**	921	+14%
Depreciation, amortisation and impairment	**381**	358	+6%
Other operating expenses	**498**	441	+13%
	3,890	3,700	+5%

Profit

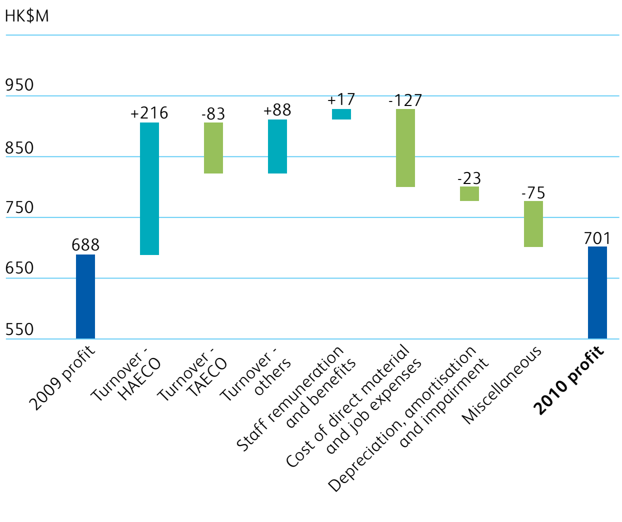
The change in profit attributable to the Company's shareholders can be analysed as follows:

	HK$M	
2009 profit	**688**	
Turnover		
HAECO	**216**	The increase principally reflects increased airframe heavy maintenance (with 15% more manhours sold) and increased line maintenance (with 12% more aircraft movements). The increases in maintenance reflect the general recovery in the aviation industry.
TAECO	**(83)**	The decrease principally reflects reduced airframe heavy maintenance (with 15% fewer manhours sold). The reduction reflects fewer Boeing passenger to freighter conversions and capacity reductions by major customers.
Others	**88**	The increase principally reflects more landing gears overhauled in TALSCO, a new Jetstar line maintenance contract in SHAECO and the commencement of engine repair in TEXL.
Staff remuneration and benefits	**17**	The decrease principally reflects a decrease in retirement benefit expenses of the two retirement benefits schemes.
Cost of direct material and job expenses	**(127)**	The increase reflects an increase in business volume.
Depreciation, amortisation and impairment	**(23)**	The increase principally reflects the bringing into use of a new hangar.
Other operating expenses	**(57)**	
Share of after-tax results of jointly controlled companies	**(13)**	The decrease reflects start up losses at the new joint ventures in Mainland China.
Taxation	**(33)**	The increase reflects higher profits.
Others items	**(22)**	
Non-controlling interests	**50**	The increase reflects a lower profit of TAECO.
2010 profit	**701**	

Profit Attributable to the Company's Shareholders



Movement of Profit Attributable to the Company's Shareholders



Assets

Total assets as at 31st December 2010 were HK$9,337 million. During the year, additions to fixed assets were HK$362 million. Included in this amount was HK$162 million spent on plant, machinery and tools and HK$197 million spent on assets under construction (principally TAECO's sixth hangar and TEXL's engine overhaul facilities).

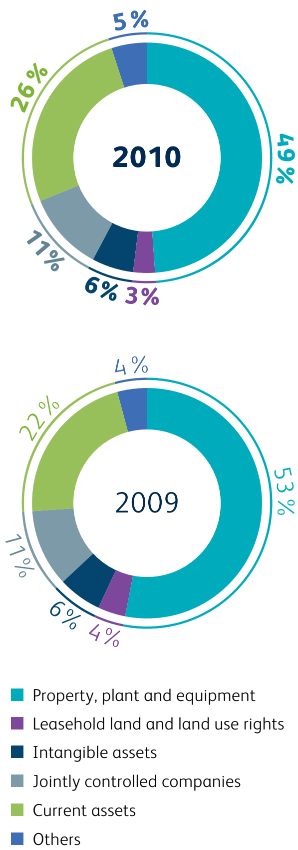
Borrowings and Financing

At 31st December 2010, the Group had net borrowings of HK$176 million and a gearing ratio of 2.7%. Net borrowings consisted of short-term loans of HK$223 million and long-term loans of HK$1,205 million, net of bank balances and short-term deposits of HK$1,252 million. Borrowings are mainly denominated in US dollars and HK dollars, and are fully repayable by 2012. The increase in net borrowings was mainly due to additional borrowing by subsidiary companies to finance capital expenditure. Committed loan facilities amounted to HK$2,264 million at 31st December 2010, of which HK$963 million were undrawn. In addition, there were uncommitted facilities of HK$423 million at the same date, of which HK$294 million were undrawn.

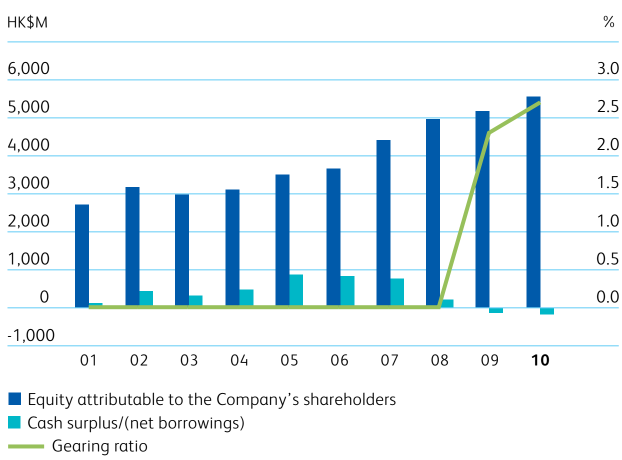
Currency Hedging

The Group's income is primarily in HK and US dollars and is matched by expenditure in the same currencies. The exception to this is TAECO which has substantial Renminbi expenditure. TAECO 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 dollars and HK dollars forward for Renminbi. At 31st December 2010, TAECO had sold forward a total of US$27 million to fund part of its Renminbi requirement for 2011 and 2012.

Total Assets



Equity and Cash Surplus / Net Borrowings



Corporate Governance Practices

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

- Independent Non-Executive Directors representing one-third of the Board (Section A.3.2 of the Code).

- quarterly reporting (Section C.1.4 of the Code) which the Board considers would provide little information of additional value to shareholders while increasing administrative costs and pressure to focus on short-term results rather than long-term value creation.

- establishing a nomination committee (Section A.4.4 of the Code) as the Board considers it is in the best interest of the Company and potential new appointees that they collectively review and approve the appointment of new directors.

Investor Relations

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

The Company's 2010 Annual General Meeting was held on 11th May 2010 and the minutes were posted on the Company's website. This meeting was open to all shareholders and members of the press. The votes of the Annual General Meeting were taken by poll and the poll results were posted on the websites of the Stock Exchange and the Company.

Key shareholder dates for 2011 are set out on page 91 of this report.

Board of Directors

The Company is governed by a Board of Directors which is responsible for directing and supervising its affairs. This Board is accountable to shareholders for the development of the Group with the goal of maximising long-term shareholder value, while balancing broader stakeholder interests.

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

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

The Non-Executive Directors bring independent judgement on issues of strategy, performance, risk and people through their contribution at Board and Committee meetings. The Board considers that three of the six Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Listing Rule 3.13. The Company has received from each of its Independent Non-Executive Directors confirmation of his independence pursuant to Listing Rule 3.13.

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

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

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

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

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

All Directors disclose to the Board on their first appointment their interests as a director or otherwise in other companies or organisations and such declarations of interests are updated annually. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director declares his or her interest.

Directors' Securities Transactions

The Company has adopted a code of conduct ("the Securities Code") regarding Directors' securities transactions 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. A copy of the Securities Code is sent to each Director of the Company first on his or her appointment and thereafter twice annually, one month before the date of the Board meetings to approve the Company's half-year results and annual results, with a reminder that the Director cannot deal in the securities and derivatives of the Company until after such results have been published, and that all his or her dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors 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.

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 the Directors of the Company have confirmed that they have complied with the required standard set out in the Model Code and the Securities Code throughout the year. Directors are reminded at least twice annually regarding the required standard set out in the Model Code and the Securities Code.

Directors' interests as at 31st December 2010 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on page 36.

Executive Committee

The Executive Committee comprises three Executive Directors, one of whom, A.K.W. Tang, is the Chairman, and five senior executives, two of whom are from the Company's jointly controlled companies and customers. It is responsible to the Board for overseeing the day-to-day operation of the Company.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting, and corporate control. The Committee consists of three Non-Executive Directors, two of whom including the Chairman, L.K.K. Leong, are independent. All the members served for the whole of 2010. At the invitation of the Committee, the Director Finance, Head of Swire Group Internal Audit, and representatives of the external auditors regularly attend its meetings. The Committee also meets regularly with the external auditors without the presence of the Company's management.

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

The Audit Committee met three times in 2010 and in March 2011. Each meeting receives written reports from the external and internal auditors covering matters of significance arising from the work conducted since the previous meeting. The work of the Committee included the following matters:

- reviewing HAECO management's assessment of the effectiveness of its system of internal control including financial, operational and compliance controls. This assessment was based on completing control self assessment questionnaires.

- reviewing HAECO management's assessment of the effectiveness of its risk management functions. This involved the compilation of registers of the risks involved in managing the business and actively managing the mitigation of these risks. Registers are kept both for enterprise wide risks which are monitored by Executive Directors and for specific risks which are monitored by departmental managers.

- reviewing the 2009 annual, 2010 interim and annual financial statements.

- after reviewing the independence of the external auditors, PricewaterhouseCoopers, and the policy on their conducting non-audit work, recommending their re-appointment to the Board, for the approval by shareholders. Approving the 2010 audit plan and the auditors' remuneration.

- approving the annual internal audit programme, reviewing progress against the programme and discussing matters arising. The Company's internal audit coverage is provided by a combination of its own internal section and visits by Swire Group Internal Audit.

- reviewing the Company's compliance with regulatory and statutory requirements.

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

Remuneration Committee

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

Under a Services Agreement between the Company and John Swire & Sons (H.K.) Limited, which has been considered in detail and approved by the Independent Non-Executive Directors of the Company, staff at various levels, including Executive Directors, are seconded to the Company. Those staff report to and take instructions from the Board of the Company but remain employees of the John Swire & Sons Limited ("Swire") group.

In order to be able to attract and retain international staff of suitable calibre, the Swire group provides a competitive remuneration package. This comprises salary, provident fund, housing, leave-passage and education allowances and, after three years' service, a bonus related to the profit of the overall Swire group. The payment of bonuses on a group-wide basis enables postings to be made to group companies with different profitability profiles.

Although the remuneration of these executives is not entirely linked to the profits of the Company, it is considered that, given the volatility of aviation related businesses, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company. Furthermore, as a substantial indirect shareholder of 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 similar terms with the principal exception that their bonuses are paid by reference to the results of the Company alone.

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

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

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

	Meetings Attended/Held			
Directors	Board	Executive Committee	Audit Committee	Remuneration Committee
Executive Directors				
C.D. Pratt	6/6			
P.K. Chan (note 1)	0/2	1/3		
A.K.W. Tang	6/6	11/11		
M. Hayman	6/6	11/11		
M.M.S. Low (note 2)	4/4	7/7		
F.N.Y. Lung (note 3)	2/2	4/4		
Non-Executive Directors				
C.P. Gibbs	6/6			
D.C.Y. Ho (note 4)	2/2	3/3		
P.A. Johansen	6/6		3/3	2/2
M.B. Swire	6/6			
Independent Non-Executive Directors				
R.E. Adams	5/6		3/3	2/2
L.K.K. Leong	4/6		3/3	2/2
A.K.Y. Lam (note 5)	3/3			
D.C.L. Tong	5/6			

Notes:
1. *P.K. Chan resigned on 19th March 2010.*
2. *M.M.S. Low resigned on 4th August 2010.*
3. *F.N.Y. Lung was appointed on 4th August 2010.*
4. *D.C.Y. Ho resigned on 1st April 2010.*
5. *A.K.Y. Lam resigned on 6th June 2010.*

External Auditors

The remuneration of the Group's external auditors is HK$2.1 million for statutory audit fees as disclosed in note 4 to the accounts and HK$1.4 million for other assurance and tax advisory services. The auditors' statement regarding their reporting responsibilities is included in their audit report on page 39.

Sustainable Development

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

The Company reports actions taken on sustainable development issues under a separate Sustainable Development Report. This annual report is published on the Company's website, which will be updated in April 2011 to include the 2010 Sustainable Development Report. The report also contains links to the 2010 Sustainable Development Report published by HAESL and the 2010 Environmental, Health & Safety Report published by TAECO.

Environment

The Company closely monitors the impact of its operations on the environment and makes every effort to reduce the extent of this impact. Its facilities incorporate systems to minimise the effect of effluents on the environment. It has an ongoing programme to reduce energy and resource usage, and to recycle waste where practicable. It has also participated in a Swire group study on greenhouse gas emissions.

The need to reduce energy consumption and greenhouse gas emissions that contribute to climate change is a key long-term environmental issue for the Company. Actions taken in 2010 include:

- The ongoing rollout of energy-saving lighting in the Company's offices and hangars. This project will save some 200,000kWh each year in energy consumption.

- In August 2010, the Company employed an independent Government-approved consultant to carry out an Indoor Air Quality audit at its facilities and was awarded a "Good Class" grade under the IAQ Certification scheme.

- HAECO, TAECO and HAESL continue to measure and strive to reduce their carbon emissions.

- The Company responds publicly to the Carbon Disclosure Project questionnaire (www.cdproject.net) each year.

- The Company was awarded a certificate of merit in the 2010 Hong Kong Awards for Environmental Excellence.

- In July 2010, the Company received a "Class of Excellence" award from the Hong Kong Productivity Council for its implementation of the Wastewise scheme.

Health & Safety

The Company is committed to conducting its business in a manner that protects the health and safety of its employees, customers, business associates, contractors and the public. Its Safety Management System includes setting targets and monitoring performance. Extensive safety training is carried out and safety audits are conducted regularly to ensure that statutory requirements are being met and to improve safety management performance.

As a responsible employer, the Company recognises its obligations to safeguard the health and safety of all employees. A series of employee health programmes have been implemented which include closely monitoring and improving the working conditions of staff during hot weather and promoting awareness of strategies to prevent heat stroke. The Company's health surveillance programme was also reviewed and extended in 2010.

The Company regularly reviews its safety performance, with recent initiatives to improve safety including better design of work stands, equipment and facilities. Safety campaigns are regularly implemented to promote staff awareness and compliance with safe working practices. The Company has also participated with the Airport Authority Hong Kong and other airport operators in a variety of programmes designed to share best safety practices amongst the airport community; these have included "Foreign Object Damage (FOD) Prevention" and "Give Way to Aircraft".

To enhance traffic safety performance, a series of safe driving initiatives have been developed and implemented. These initiatives included the installation of speed monitoring devices on vehicles, close supervision to ensure compliance with traffic safety rules and replacement of older vehicles with environmentally friendly Euro V mini-buses.

As a result of these efforts, the Company's Lost Time Injury ("LTI") rate was reduced by some 7% in 2010. The LTI rate is measured as the number of Lost Time Injury cases per 100,000 manhours worked.

A Responsible Employer

The Company recognises that the development of its staff is key to the sustainable development of its business. It places great emphasis on supporting, rewarding and motivating its staff. The Company is an equal opportunities employer, offering its staff competitive compensation and benefit packages. It strives to provide an environment that promotes diversity and respect, safeguards health and safety, and encourages an appropriate work-life balance.

The Company operates a variety of trainee and apprenticeship schemes that aim to provide new recruits with the knowledge and experience required to become skilled professional members of the aircraft maintenance industry. These include the Aircraft Maintenance Craftsman Trainee Scheme, the Aircraft Engineering Technician Trainee Scheme, the Aircraft Engineering Licence Trainee Scheme and the Graduate Licence Trainee Scheme. HAECO also provides training and development programmes to help staff realise their full potential and build successful careers within the Company. The Company's medical schemes cover the health needs of its staff and their family members. The Company's in-house clinics provide a variety of services to staff including offering advice on health issues, providing rehabilitation services for injured workers and organising preventive health programmes.

The HAECO Group, including its subsidiary and jointly controlled companies, employs over 13,000 staff globally, of which 5,913 are in Hong Kong, including 4,967 in HAECO.

The HAECO Group's staff headcount at year-end was:

	2010	2009	Change
HAECO	**4,967**	4,621	+7%
TAECO	**4,739**	5,094	-7%
HAESL	**901**	892	+1%
Other subsidiary and jointly controlled companies in which HAECO and TAECO own more than 20%	**2,471**	2,008	+23%
	13,078	12,615	+4%

HAECO and the Community

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

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

HAECO collaborates with a number of organisations in the training and development of local young people aspiring to join the aviation industry. The Company provides practical training opportunities to students of the Vocational Training Council – Youth College and the Institute of Vocational Education, majoring in aircraft maintenance diploma programmes. It supports the Education Bureau in designing and implementing aircraft maintenance courses under the Applied Learning programme and provides familiarisation and practical training opportunities for hundreds of secondary school students who have enrolled in this course. The Company works with the Labour Department to arrange training for young people who show interest in the industry under the Youth Pre-employment Training Programme and the Work Experience & Training Scheme. It also collaborates with the Hong Kong Institution of Engineers in operating the Aircraft Engineer Development Scheme for local university undergraduate students.

In recognition of its efforts to provide career development opportunities for Hong Kong's youth, the Labour Department has presented the Company a "Caring Training Employer" award, while the Hong Kong Council of Social Services has named HAECO as a "Caring Company" in recognition of its efforts in caring for its staff and the community.

During the year, the HAECO Group and its staff made charitable and community donations of around HK$3.1 million. This figure includes HK$2.8 million donated to Hong Kong charities through The Swire Group Charitable Trust, HK$42,100 donated to the Hong Kong Polytechnic University as bursaries for its students, HK$25,000 donated to the Vocational Training Council as scholarships for its students and HK$29,800 raised in the 24-hour Pedal Kart Grand Prix and the Sedan Chair Race for charitable causes in Hong Kong.

Directors and Officers

Executive Directors

PRATT, Christopher Dale+, CBE, aged 54, has been Chairman and a Director of the Company since August 2006. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Cathay Pacific Airways Limited and Swire Properties Limited, and a Director of The Hongkong and Shanghai Banking Corporation Limited and Air China Limited. He joined the Swire group in 1978 and in addition to Hong Kong has worked with the group in Australia and Papua New Guinea.

TANG, Kin Wing Augustus+, aged 52, 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.

HAYMAN, Mark, aged 50, 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 44, 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 49, 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 68, has been a Director of the Company since July 1984 and is Chairman of the Remuneration Committee. He joined the Swire group in 1973 and worked in Hong Kong, Japan and the United Kingdom before retiring from John Swire & Sons Limited on 31st December 2008. He is also a Director of Swire Pacific Limited.

SWIRE, Merlin Bingham+, aged 37, has been a Director of the Company since January 2009. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He was Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, from May 2006 until June 2008. He is a Director and shareholder of John Swire & Sons Limited and Swire Pacific Limited and an Alternate Director of Steamships Trading Company Limited.

Independent Non-Executive Directors

ADAMS, Robert Ernest#*, aged 67, 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 50, has been a Director of the Company since March 2003 and is Chairman of the Audit Committee. He is also Finance and Business Development Director of MTR Corporation Limited and a Non-Executive Director of Tai Ping Carpets International Limited.

TONG, Chi Leung David, aged 40, has been a Director of the Company since May 2006. He is also a Director of Sir Elly Kadoorie & Sons Limited, Director of CLP Power Hong Kong Limited, Deputy Chairman of Hong Kong Business Aviation Centre Limited and a Non-Executive Director of Tai Ping Carpets International Limited.
Alternate: The Hon. Sir Michael David KADOORIE

Executive Officers

CHAN, Ching Summit+, aged 45, 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.

CHI, Tin Mong John, aged 66, joined the Company in 1962. He was appointed Director and Chief Operating Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company incorporated in the People's Republic of China, in September 1996.

HEALY, Patrick+, aged 45, joined the Swire group in 1988 and has worked with the group in Hong Kong, Germany and Mainland China. He was appointed Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company incorporated in the People's Republic of China, in July 2008.

TANG, Kwok Kit Kenny+, aged 56, 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 47, has been Company Secretary since January 2006. He joined the Swire group in 1988.

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

Directors' Report

The Directors submit their report and the audited accounts for the year ended 31st December 2010, which are set out on pages 40 to 87. Details of the following items are set out in the accounts as follows:

		Page
Results	Consolidated Income Statement	40
Principal activities	Note 1	46
Interest	Note 8	54
Fixed assets	Notes 13 and 14	56-58
Share capital	Note 26	70
Reserves	Note 27	71
Commitments	Notes 31 and 32	73
Continuing connected transactions	Note 35	74-75

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 88 and 89.

Dividends

The Directors recommend the payment of final dividend for 2010 of HK$1.65 per share which, together with the interim dividend paid on 21st September 2010 of HK$0.45 per share, makes total dividends for the year of HK$2.10, an increase of 5% from that for 2009. This represents a total distribution for the year of HK$349 million. Subject to the approval of the 2010 final dividend by the shareholders at the Annual General Meeting on 17th May 2011, it is expected that the final dividend will be paid on 26th May 2011 to shareholders registered at the close of business on the record date, being 17th May 2011. The share register will be closed from 11th May 2011 to 17th May 2011, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for entitlement to the final 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 Monday, 9th May 2011.

Donations

During the year the Company and its subsidiary companies made donations for charitable and community purposes totalling HK$3.1 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 35 to the accounts, on continuing connected transactions.

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, F.N.Y. Lung, C.D. Pratt, M.B. Swire and A.K.W. Tang are interested in the JSSHK Services Agreement (as defined below). D.C.Y. Ho and M.M.S. Low were interested as directors and/or employees of the Swire group until their resignation with effect from 1st April 2010 and 4th August 2010 respectively. 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 2010 are set out in note 35 to the accounts.

Major Customers and Suppliers (Significant Contracts)

62.2% of sales and 24.0% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 42.6% of sales were made to the Group's largest customers, Cathay Pacific Airways Limited ("CX"), its subsidiary companies Hong Kong Dragon Airlines Limited ("KA") and AHK Air Hong Kong Limited, while 10.1% of purchases were from the largest suppliers, Boeing Commercial Airplanes and Boeing International Logistics Spares, Inc.

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

1. CX is interested as an associate of Swire Pacific Limited, the Company's holding company;
2. M.M.S. Low was interested as a shareholder of CX;
3. C.P. Gibbs is interested as an employee of CX; and
4. C.D. Pratt and M.B. Swire are interested as directors of CX.

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

Connected Transaction

On 1st April 2010, the Company accepted an offer by Kin Kuen Development Company Limited ("Kin Kuen") to sell 2% of the registered capital of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") to the Company for a consideration of US$8.0 million (HK$62.4 million). On completion of the transaction on 9th September 2010, the Company's interest in TAECO increased from 56.55% to 58.55% and Kin Kuen ceased to be a shareholder of TAECO.

As Kin Kuen is an associate of P.K. Chan, a former Director of the Company, the transaction constituted a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 1st April 2010 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 35 have been entered into by the Group:

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

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

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

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

(a) they have been approved by the Board of the Company;
(b) they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group);
(c) they have been entered into in accordance with the relevant agreements governing the transactions; and
(d) they have not exceeded the relevant annual caps disclosed in previous announcements.

Directors

The names of the present Directors are listed on pages 31 to 32. F.N.Y. Lung was appointed as Director Finance on 4th August 2010. All the remaining Directors served throughout the year and still hold office at the date of this report.

In addition, P.K. Chan served as Deputy Chairman and Executive Director of the Company until his resignation on 19th March 2010. D.C.Y. Ho served as Non-Executive Director of the Company until his resignation on 1st April 2010. A.K.Y. Lam served as Independent Non-Executive Director of the Company until his resignation on 6th June 2010. M.M.S. Low served as Director Finance until her resignation on 4th August 2010.

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 M. Hayman and R.E. Adams retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election. F.N.Y. Lung, having been appointed to the Board under Article 91 since the last Annual General Meeting, also retires and offers herself 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).

Fees totalling HK$1.3 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 2010, the registers maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that the following Directors held beneficial interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited and Swire Pacific Limited:

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	Note
Hong Kong Aircraft Engineering Company Limited						
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	5,223,811	5,223,811	3.14	1
D.C.L. Tong	20,000	–	–	20,000	0.01	

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	Note
John Swire & Sons Limited						
Ordinary Shares of £1						
M.B. Swire	3,040,523	–	19,222,920	22,263,443	22.26	2
8% Cum. Preference Shares of £1						
M.B. Swire	846,576	–	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	
M.B. Swire	58,791	–	–	58,791	0.0065	2
'B' shares						
P.A. Johansen	200,000	–	–	200,000	0.0067	
C.D. Pratt	100,000	–	–	100,000	0.0033	
M.B. Swire	2,241,483	–	3,938,554	6,180,037	0.2063	2

Notes:

1. *The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.*
2. *M.B. Swire is a trustee of trusts which held 10,766,080 ordinary shares and 3,121,716 preference shares in John Swire & Sons Limited and 3,037,822 'B' shares in Swire Pacific Limited included under "Trust interest" and does not have any beneficial interest in those shares.*

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

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

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

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

Directors' Interests in Competing Business

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

Substantial Shareholders' and Other Interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 31st December 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	Note
1. Swire Pacific Limited	124,723,637	74.99	Beneficial owner and attributable interest	(1)
2. John Swire & Sons Limited	124,723,637	74.99	Attributable interest	(2)

Notes:
At 31st December 2010:
(1) *Swire Pacific Limited was interested in 124,723,637 shares of the Company as the 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 40.63% of the issued share capital and approximately 57.62% 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, 8th March 2011

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 40 to 87, which comprise the consolidated and company statements of financial position as at 31st December 2010, 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 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 31st December 2010 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, 8th March 2011

Consolidated Income Statement

for the year ended 31st December 2010

	Note	2010 HK$M	2009 HK$M
Turnover	4	**4,266**	4,045
Operating expenses:			
Staff remuneration and benefits	5	**(1,963)**	(1,980)
Cost of direct material and job expenses		**(1,048)**	(921)
Depreciation, amortisation and impairment	13, 14	**(381)**	(358)
Insurance and utilities		**(118)**	(103)
Operating lease rentals – land and buildings		**(136)**	(129)
Repairs and maintenance		**(123)**	(121)
Other		**(121)**	(88)
		(3,890)	(3,700)
Other net gains	7	**21**	40
Operating profit		**397**	385
Net finance charges	8	**(8)**	(5)
Net operating profit		**389**	380
Share of after-tax results of jointly controlled companies	16	**407**	420
Profit before taxation		**796**	800
Taxation	9	**(73)**	(40)
Profit for the year		**723**	760
Profit attributable to:			
The Company's shareholders	10	**701**	688
Non-controlling interests		**22**	72
		723	760
Dividends			
Interim – paid		**75**	83
Final – proposed/paid		**274**	249
	11	**349**	332
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	12	**HK$4.21**	HK$4.14

The notes on pages 46 to 76 and the principal accounting policies on pages 77 to 87 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2010

	2010 HK$M	2009 HK$M
Profit for the year	**723**	760
Other comprehensive income/(loss):		
Changes in cash flow hedges		
– recognised during the year	**5**	11
– deferred tax	**–**	7
– transferred to other net gains	**–**	(47)
Net translation differences on foreign operations	**34**	1
Other comprehensive income/(loss) for the year, net of tax	**39**	(28)
Total comprehensive income for the year	**762**	732
Total comprehensive income attributable to:		
The Company's shareholders	**731**	673
Non-controlling interests	**31**	59
	762	732

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

The notes on pages 46 to 76 and the principal accounting policies on pages 77 to 87 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2010

	Note	2010 HK$M	2009 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**4,615**	4,618
Leasehold land and land use rights	13	**312**	317
Intangible assets	14	**570**	551
Jointly controlled companies	16	**1,064**	988
Derivative financial instruments	20	**1**	4
Deferred tax assets	19	**39**	39
Retirement benefit assets	18	**301**	272
		6,902	6,789
Current assets			
Stocks of aircraft parts	22	**289**	221
Work in progress		**147**	111
Trade and other receivables	23	**740**	536
Taxation recoverable		**–**	8
Derivative financial instruments	20	**7**	13
Cash and cash equivalents	30(b)	**1,098**	844
Short-term deposits	30(b)	**154**	139
		2,435	1,872
Current liabilities			
Trade and other payables	24	**972**	989
Taxation payable		**65**	–
Derivative financial instruments	20	**–**	15
Short-term loans	25	**223**	425
Long-term loans due within one year	25	**639**	106
		1,899	1,535
Net current assets		**536**	337
Total assets less current liabilities		**7,438**	7,126
Non-current liabilities			
Long-term loans	25	**566**	595
Receipt in advance	29	**69**	79
Deferred tax liabilities	19	**319**	311
		954	985
NET ASSETS		**6,484**	6,141
EQUITY			
Share capital	26	**166**	166
Reserves	27	**5,397**	5,011
Equity attributable to the Company's shareholders		**5,563**	5,177
Non-controlling interests	28	**921**	964
TOTAL EQUITY		**6,484**	6,141

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

Christopher Pratt
Lincoln Leong
Directors

Hong Kong, 8th March 2011

The notes on pages 46 to 76 and the principal accounting policies on pages 77 to 87 form part of these financial statements.

Company Statement of Financial Position

at 31st December 2010

	Note	2010 HK$M	2009 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**2,440**	2,572
Leasehold land	13	**16**	16
Subsidiary companies	15	**801**	738
Jointly controlled companies	16	**135**	135
Loan to a subsidiary company	15	**8**	11
Retirement benefit assets	18	**301**	272
		3,701	3,744
Current assets			
Stocks of aircraft parts	22	**203**	156
Work in progress		**75**	79
Trade and other receivables	23	**572**	462
Taxation recoverable		**–**	2
Cash and cash equivalents		**589**	393
		1,439	1,092
Current liabilities			
Trade and other payables	24	**576**	605
Taxation payable		**65**	–
Short-term loans	25	**–**	200
		641	805
Net current assets		**798**	287
Total assets less current liabilities		**4,499**	4,031
Non-current liabilities			
Long-term loans	25	**100**	–
Receipt in advance	29	**69**	79
Deferred tax liabilities	19	**261**	256
		430	335
NET ASSETS		**4,069**	3,696
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	26	**166**	166
Reserves	27	**3,903**	3,530
TOTAL EQUITY		**4,069**	3,696

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

Christopher Pratt
Lincoln Leong
Directors

Hong Kong, 8th March 2011

The notes on pages 46 to 76 and the principal accounting policies on pages 77 to 87 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2010

	Note	2010 HK$M	2009 HK$M
Operating activities			
Cash generated from operations	*30(a)*	**478**	790
Interest paid		**(13)**	(13)
Interest received		**8**	6
Profits tax recovered/(paid)		**8**	(54)
Net cash generated from operating activities		**481**	729
Investing activities			
Purchase of property, plant and equipment		**(416)**	(897)
Additions of intangible assets		**(16)**	(8)
Proceeds from disposals of property, plant and equipment		**8**	6
Purchase of shares in an existing subsidiary company		**(62)**	–
Purchase of shares in jointly controlled companies		**–**	(42)
Loans to a jointly controlled company		**(11)**	(19)
Repayment of loans by a jointly controlled company		**4**	6
Dividends received from jointly controlled companies		**334**	392
Net increase in short-term deposits other than cash and cash equivalents		**(15)**	(128)
Net cash used in investing activities		**(174)**	(690)
Net cash inflow before financing activities		**307**	39
Financing activities			
Proceeds from loans		**707**	893
Repayment of loans		**(405)**	(444)
Dividends paid to the Company's shareholders		**(324)**	(457)
Dividends paid to non-controlling interests		**(34)**	(67)
Net cash used in financing activities		**(56)**	(75)
Net increase/(decrease) in cash and cash equivalents		**251**	(36)
Cash and cash equivalents at 1st January		**844**	881
Currency adjustment		**3**	(1)
Cash and cash equivalents at 31st December	*30(b)*	**1,098**	844

The notes on pages 46 to 76 and the principal accounting policies on pages 77 to 87 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2010

	Note	Share capital HK$M	Revenue reserve HK$M	Other reserves HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
		Attributable to the Company's shareholders					
At 1st January 2010		**166**	**4,980**	**31**	**5,177**	**964**	**6,141**
Profit for the year		**–**	**701**	**–**	**701**	**22**	**723**
Other comprehensive income		**–**	**–**	**30**	**30**	**9**	**39**
Total comprehensive income for the year		**–**	**701**	**30**	**731**	**31**	**762**
Dividends paid and payable		**–**	**(324)**	**–**	**(324)**	**(32)**	**(356)**
Change in composition of Group	*28, 33*	**–**	**(21)**	**–**	**(21)**	**(42)**	**(63)**
At 31st December 2010		**166**	**5,336**	**61**	**5,563**	**921**	**6,484**

	Share capital HK$M	Revenue reserve HK$M	Other reserves HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
	Attributable to the Company's shareholders					
At 1st January 2009	166	4,749	46	4,961	939	5,900
Profit for the year	–	688	–	688	72	760
Other comprehensive loss	–	–	(15)	(15)	(13)	(28)
Total comprehensive income/(loss) for the year	–	688	(15)	673	59	732
Dividends paid and payable	–	(457)	–	(457)	(34)	(491)
At 31st December 2009	166	4,980	31	5,177	964	6,141

The notes on pages 46 to 76 and the principal accounting policies on pages 77 to 87 form part of these financial statements.

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 76. 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 highly probable transactions (largely represented by operating and capital expenditure) in each major foreign currency, for a period of up to 36 months, where their value of time to execution gives rise to a significant currency exposure, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive having regard to the underlying exposure.

At 31st December 2010, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, total equity would have been HK$33 million (2009: HK$3 million) higher/lower, arising mainly from the movement in the exchange translation reserve caused by the translation of the net investment in foreign operations.

(ii) Interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group earns interest income on cash deposits. During 2009 and 2010, 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 impacted by changes in interest rates due to the Group's low level of gearing.

(iii) Credit risk

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

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk (continued)

The Group has policies in place to evaluate credit risk when accepting new business and limit its credit exposure to any individual customer. The credit terms given to customers vary and are generally based on their individual financial strength. Credit evaluations of trade receivables are performed periodically to minimise credit risk associated with receivables.

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

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

	Company	
	2010	2009
	HK$M	HK$M
Financial guarantees in respect of bank loans of a subsidiary company	**653**	448

(iv) Liquidity risk

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

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

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

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

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

	Total contractual undiscounted cash flow HK$M	Within 1 year or on demand HK$M	Between 1 and 2 years HK$M	Between 2 and 5 years HK$M	More than 5 years HK$M
At 31st December 2009					
Group					
Bank loans (including interest obligations)	1,138	538	441	159	–
Trade and other payables	989	989	–	–	–
Derivative financial liabilities at notional value	318	318	–	–	–
	2,445	1,845	441	159	–

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

	Total contractual undiscounted cash flow HK$M	Within 1 year or on demand HK$M	Between 1 and 2 years HK$M	Between 2 and 5 years HK$M	More than 5 years HK$M
At 31st December 2009					
Company					
Bank loans (including interest obligations)	200	200	–	–	–
Trade and other payables	605	605	–	–	–
Financial guarantees	448	41	320	87	–
	1,253	846	320	87	–

Note: Forward foreign exchange contracts are included in the 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, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and to secure access to finance at a reasonable cost.

2. Financial risk management (continued)

(b) Capital management (continued)

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 90. The gearing ratio at 31st December 2010 was 2.7% (2009: 2.3%). The increase in the gearing ratio during 2010 principally reflects additional borrowing by subsidiary companies to finance capital expenditure.

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

(c) Fair value estimation

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

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

The Group's only financial instruments impacted by such valuation methods are derivatives used for hedging. The fair value of derivatives used for hedging is based on inputs other than quoted prices included within level 1 that are observable for the instruments therefore are all categorised as level 2. The fair value of these derivatives used for hedging are assets of HK$8 million (2009: HK$17 million) and nil for liabilities (2009: HK$15 million).

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 quoted forward exchange rates in the market at the reporting date.

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

3. Critical accounting estimates and judgements

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

3. Critical accounting estimates and judgements (continued)

(a) Impairment of assets

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

(b) Income taxes

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

4. Segment information

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

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

	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 2010								
External turnover	**2,966**	**1,177**	**28**	**7,286**	**(7,286)**	**95**	**–**	**4,266**
Inter-segment turnover	**77**	**5**	**–**	**2**	**(2)**	**20**	**(102)**	**–**
Total turnover	**3,043**	**1,182**	**28**	**7,288**	**(7,288)**	**115**	**(102)**	**4,266**
Operating profit/(loss)	**399**	**89**	**(63)**	**854**	**(854)**	**(28)**	**–**	**397**
Finance income	**–**	**7**	**2**	**–**	**–**	**–**	**(1)**	**8**
Finance charges	**(3)**	**(3)**	**(7)**	**(3)**	**3**	**(4)**	**1**	**(16)**
Share of after-tax results of jointly controlled companies	**–**	**–**	**–**	**132**	**248**	**–**	**27**	**407**
Profit/(loss) before taxation	**396**	**93**	**(68)**	**983**	**(603)**	**(32)**	**27**	**796**
Taxation (charge)/credit	**(69)**	**5**	**2**	**(139)**	**139**	**(6)**	**(5)**	**(73)**
Profit/(loss) for the year	**327**	**98**	**(66)**	**844**	**(464)**	**(38)**	**22**	**723**
Depreciation and amortisation	**181**	**115**	**55**	**62**	**(62)**	**30**	**–**	**381**
Reversal of provision for impairment of stock	**–**	**–**	**–**	**(1)**	**1**	**–**	**–**	**–**
Auditors' remuneration – statutory audit fees	**1**	**1**	**–**	**–**	**–**	**–**	**–**	**2**

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 2009								
External turnover	2,708	1,260	–	7,033	(7,033)	36	–	4,004
Inter-segment turnover	116	5	–	2	(2)	9	(89)	41
Total turnover	2,824	1,265	–	7,035	(7,035)	45	(89)	4,045
Operating profit/(loss)	264	209	(43)	832	(832)	(45)	–	385
Finance income	1	5	1	–	–	–	–	7
Finance charges	(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 rotable spares	26	5	–	8	(8)	–	–	31
Auditors' remuneration – statutory audit fees	1	1	–	–	–	–	–	2

	HAECO	TAECO	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2010								
Total segment assets	**4,204**	**2,549**	**1,300**	**2,678**	**(2,678)**	**373**	**(184)**	**8,242**
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	**60**	**130**	**143**	**195**	**(195)**	**29**	**–**	**362**
Total segment liabilities	**1,071**	**634**	**938**	**1,186**	**(1,186)**	**370**	**(160)**	**2,853**

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 2009								
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

	2010	2009
	HK$M	HK$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	**8,242**	7,643
Unallocated: investment in jointly controlled companies	**1,064**	988
Unallocated: intangible assets – goodwill	**31**	30
Total assets	**9,337**	8,661

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

Reportable segments' liabilities are equal to total liabilities.

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

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.

	2010	2009
	HK$M	HK$M
The Group's turnover derived from external customers:		
In Hong Kong	**1,894**	1,957
In other countries	**2,372**	2,088
	4,266	4,045
Total non-current assets other than financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	**2,460**	2,594
In other countries (mainly in Mainland China)	**3,037**	2,892
	5,497	5,486
Turnover in HAECO and TAECO derived from a single external customer	**1,818**	1,891

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 2010 amounted to HK$1,963 million (2009: HK$1,980 million). Of the five highest paid employees, three (2009: three) were Directors and two (2009: two) were Executive Officers. Remuneration details are given in note 6.

6. Directors' and Executive Officers' remuneration

Total number of Directors who served during the year was fourteen (2009: sixteen) and total number of Executive Officers who served during the year was four (2009: four). Their remuneration was as follows:

	Group							
	Cash			Non Cash				
	Basic salary/ Directors' fees (note a) HK$000	Bonus (note b) HK$000	Allowances, gratuities, and benefits HK$000	Retirement schemes contributions HK$000	Bonus paid to retirement benefits HK$000	Housing & other benefits HK$000	**2010 Total HK$000**	2009 Total HK$000
Executive Directors:								
Christopher Pratt	564	265	40	210	78	313	**1,470**	1,543
Chan Ping Kit (until 19th March 2010)	746	–	3,152	4	–	2,127	**6,029**	13,409
Augustus Tang	2,804	2,370	1,361	80	–	1	**6,616**	4,379
Charles Bremridge (until 1st April 2009)	–	148	–	–	111	–	**259**	3,239
Mark Hayman	1,906	947	909	–	–	17	**3,779**	3,881
Michelle Low (until 4th August 2010)	1,024	1,120	374	49	–	1	**2,568**	3,474
Fanny Lung (from 4th August 2010)	539	–	181	–	–	–	**720**	–
Ashokumar Sathianathan (until 31st January 2009)	–	–	–	–	–	–	**–**	1,726
	7,583	4,850	6,017	343	189	2,459	**21,441**	31,651
Non-Executive Directors:								
Martin Cubbon (until 13th May 2009)	–	–	–	–	–	–	**–**	–
Christopher Gibbs	–	–	–	–	–	–	**–**	–
Davy Ho (until 1st April 2010)	–	–	–	–	–	–	**–**	–
Peter Johansen	415	–	–	–	–	–	**415**	415
Merlin Swire	–	–	–	–	–	–	**–**	–
	415	–	–	–	–	–	**415**	415
Independent Non-Executive Directors:								
Robert Adams	405	–	–	–	–	–	**405**	405
Albert Lam (until 6th June 2010)	128	–	–	–	–	–	**128**	300
Lincoln Leong	430	–	–	–	–	–	**430**	430
David Tong	300	–	–	–	–	–	**300**	300
	1,263	–	–	–	–	–	**1,263**	1,435
2010 total	**9,261**	**4,850**	**6,017**	**343**	**189**	**2,459**	**23,119**	
2009 total	13,057	8,526	3,896	1,160	753	6,109		33,501
Executive Officers:								
Summit Chan (from 1st February 2009)	1,304	631	444	37	–	2	**2,418**	1,737
John Chi	1,833	813	897	–	–	1,495	**5,038**	4,364
Patrick Healy	1,415	473	804	526	352	1,451	**5,021**	7,070
Merlin Swire (until 30th June 2008)	–	–	–	–	–	–	**–**	313
Kenny Tang (from 7th September 2009)	1,932	315	632	55	–	1	**2,935**	820
	6,484	2,232	2,777	618	352	2,949	**15,412**	14,304
2010 total	**6,484**	**2,232**	**2,777**	**618**	**352**	**2,949**	**15,412**	
2009 total	4,958	1,632	1,713	1,763	290	3,948		14,304

Notes:

a. Annual Directors' fees are determined by the Board and for 2010 comprised Director's fee of HK$300,000 (2009: HK$300,000), fee for members serving on Audit Committee of HK$75,000 (2009: HK$75,000) and fee for members serving on Remuneration Committee of HK$30,000 (2009: HK$30,000) respectively. The fee for Chairman of Audit Committee is HK$100,000 (2009: HK$100,000) and fee for Chairman of Remuneration Committee is HK$40,000 (2009: HK$40,000).

b. Bonuses paid to the Executive Directors and Executive Officers are based on previous years' results.

7. Other net gains

	Group 2010 HK\$M	2009 HK\$M
Net foreign exchange gains	**27**	40
Loss on disposal of property, plant and equipment	**(6)**	–
	21	40

8. Net finance charges

	Group 2010 HK\$M	2009 HK\$M
Finance income:		
Short-term deposits and bank balances	**8**	7
Finance charges:		
Bank loans	**(16)**	(12)
	(8)	(5)

9. Taxation

	Group 2010 HK\$M	2009 HK\$M
Current taxation:		
Hong Kong profits tax	**65**	–
Overseas taxation	**8**	9
Over-provisions in prior years	**(8)**	(8)
	65	1
Deferred taxation (note 19):		
Increase in deferred tax liabilities	**8**	39
	73	40

Hong Kong profits tax is calculated at 16.5% (2009: 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\$70 million (2009: HK\$70 million) is included in the share of after-tax results of jointly controlled companies shown in the consolidated income statement.

9. Taxation (continued)

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

	Group	
	2010	2009
	HK$M	HK$M
Profit before taxation	**796**	800
Calculated at a tax rate of 16.5% (2009: 16.5%)	**131**	132
Share of after-tax results of jointly controlled companies	**(67)**	(69)
Effect of different tax rates in other countries	**(1)**	(9)
Income not subject to tax	**(5)**	(9)
Expenses not deductible for tax purposes	**1**	–
Unused tax losses not recognised	**8**	10
Over-provisions in prior years	**(8)**	(8)
Effect of changes in tax rates	**–**	(17)
Others	**14**	10
Total charge	**73**	40

10. Profit attributable to the Company's shareholders

Of the profit attributable to the Company's shareholders, HK$697 million (2009: HK$648 million) is dealt with in the financial statements of the Company.

11. Dividends

	Company	
	2010	2009
	HK$M	HK$M
Interim dividend, paid on 21st September 2010, of HK$0.45 per share (2009: HK$0.50 per share)	**75**	83
Proposed final dividend of HK$1.65 per share (2009 actual dividend paid: HK$1.50 per share)	**274**	249
	349	332

The proposed final dividend is not accounted for until it has been approved at the Annual General Meeting. The actual amount will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2011.

12. Earnings per share (basic and diluted)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK$701 million (2009: HK$688 million) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2009: 166,324,850).

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

	Group						
	Property, plant and equipment						
	Buildings and building facilities HK$M	Plant, machinery and tools HK$M	Vehicles, equipment and furniture HK$M	Rotable spares HK$M	Assets under construction HK$M	Total HK$M	Leasehold land and land use rights HK$M
Cost							
At 1st January 2009	3,935	1,386	214	262	576	6,373	383
Translation differences	1	–	–	–	–	1	1
Additions and transfers	854	186	(6)	3	(250)	787	–
Disposals	(3)	(27)	(12)	(15)	–	(57)	–
At 31st December 2009	4,787	1,545	196	250	326	7,104	384
Translation differences	13	9	–	–	4	26	4
Additions and transfers	16	162	(38)	9	197	346	–
Disposals	–	(32)	(12)	(14)	–	(58)	–
At 31st December 2010	**4,816**	**1,684**	**146**	**245**	**527**	**7,418**	**388**
Accumulated depreciation, amortisation and impairment							
At 1st January 2009	1,183	756	163	74	–	2,176	57
Depreciation and amortisation charge/ (transfer) for the year	164	143	(3)	19	–	323	10
Impairment charge for the year	–	–	–	24	–	24	–
Disposals	(1)	(22)	(11)	(3)	–	(37)	–
At 31st December 2009	1,346	877	149	114	–	2,486	67
Translation differences	3	4	–	–	–	7	–
Depreciation and amortisation charge/ (transfer) for the year	185	186	(32)	15	–	354	9
Disposals	–	(28)	(11)	(5)	–	(44)	–
At 31st December 2010	**1,534**	**1,039**	**106**	**124**	**–**	**2,803**	**76**
Net book value							
At 31st December 2010	**3,282**	**645**	**40**	**121**	**527**	**4,615**	**312**
At 31st December 2009	3,441	668	47	136	326	4,618	317

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

	Company						
	Property, plant and equipment						
	Buildings and building facilities HK$M	Plant, machinery and tools HK$M	Vehicles, equipment and furniture HK$M	Rotable spares HK$M	Assets under construction HK$M	Total HK$M	Leasehold land HK$M
Cost							
At 1st January 2009	2,177	539	159	262	495	3,632	21
Additions and transfers	848	61	(12)	3	(474)	426	–
Disposals	–	(9)	(10)	(15)	–	(34)	–
At 31st December 2009	3,025	591	137	250	21	4,024	21
Additions and transfers	7	97	(43)	9	(10)	60	–
Disposals	–	(15)	(10)	(14)	–	(39)	–
At 31st December 2010	**3,032**	**673**	**84**	**245**	**11**	**4,045**	**21**
Accumulated depreciation, amortisation and impairment							
At 1st January 2009	710	378	131	74	–	1,293	5
Depreciation and amortisation charge/ (transfer) for the year	86	59	(10)	19	–	154	–
Impairment charge for the year	–	–	–	24	–	24	–
Disposals	–	(7)	(9)	(3)	–	(19)	–
At 31st December 2009	796	430	112	114	–	1,452	5
Depreciation and amortisation charge/ (transfer) for the year	113	94	(41)	15	–	181	–
Disposals	–	(14)	(9)	(5)	–	(28)	–
At 31st December 2010	**909**	**510**	**62**	**124**	**–**	**1,605**	**5**
Net book value							
At 31st December 2010	**2,123**	**163**	**22**	**121**	**11**	**2,440**	**16**
At 31st December 2009	2,229	161	25	136	21	2,572	16

At 31st December 2010 and 2009, 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 the construction of a sixth hangar by TAECO and engine overhaul facilities by TEXL at Xiamen, Mainland China.

Of the leasehold land and land use rights of HK$312 million (2009: HK$317 million), HK$16 million (2009: HK$16 million) relates to the net book value of leasehold land held in Hong Kong by the Company and HK$296 million (2009: HK$301 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.

14. Intangible assets

	Group				Company
	Computer software HK$M	Goodwill HK$M	Technical licences HK$M	Total HK$M	Computer software HK$M
Cost					
At 1st January 2009	14	29	511	554	10
Translation differences	–	1	–	1	–
Additions	–	–	6	6	–
At 31st December 2009	14	30	517	561	10
Translation differences	–	1	21	22	–
Additions	15	–	1	16	–
At 31st December 2010	**29**	**31**	**539**	**599**	**10**
Accumulated amortisation					
At 1st January 2009	9	–	–	9	9
Amortisation charge for the year	1	–	–	1	1
At 31st December 2009	10	–	–	10	10
Translation differences	–	–	1	1	–
Amortisation charge for the year	1	–	17	18	–
At 31st December 2010	**11**	**–**	**18**	**29**	**10**
Net book value					
At 31st December 2010	**18**	**31**	**521**	**570**	**–**
At 31st December 2009	4	30	517	551	–

The technical licences have a remaining amortisation period of 20 years (2009: 21 years).

Impairment test of goodwill

Goodwill relates to TEXL which is a cash-generating unit ("CGU") of the Group and an operating segment in its own right. The recoverable amount attributable to this CGU is determined based on a value in use calculation. This calculation uses the financial budget and plan covering a period of ten years. Cash flows beyond this period are extrapolated at the same level as in the tenth year. The discount rate used at 31st December 2010 was 5.3% (2009: 5.6%). The discount rate is pre-tax and reflects the specific risks relating to the CGU.

15. Subsidiary companies

	Company	
	2010 **HK$M**	2009 HK$M
Unlisted shares at cost	**801**	738

The principal subsidiary companies are shown on page 76.

A loan due from a subsidiary company of HK$8 million (2009: HK$11 million) is unsecured and interest free (2009: same). The loan is repayable in 2012.

16. Jointly controlled companies

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Unlisted shares at cost	**183**	183	**135**	135
Attributable post-acquisition reserves	**881**	805	**–**	–
	1,064	988	**135**	135
Dividends received and receivable from jointly controlled companies during the year	**342**	392	**325**	376

The principal jointly controlled companies are shown on page 76.

Included in trade and other receivables are loans due from a jointly controlled company to the Group of HK$26 million (2009: HK$19 million) which are unsecured and carry interest at 3.6% per annum (2009: 3.6% per annum). The loans are repayable at various dates in 2011.

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	
	2010	2009	**2010**	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Turnover	**3,280**	3,166	**335**	329	**3,615**	3,495
Operating expenses	**(2,896)**	(2,791)	**(298)**	(260)	**(3,194)**	(3,051)
Operating profit	**384**	375	**37**	69	**421**	444
Net finance charges	**(1)**	(1)	**(3)**	–	**(4)**	(1)
Share of after-tax results of jointly controlled companies	**60**	47	**–**	–	**60**	47
Profit before taxation	**443**	421	**34**	69	**477**	490
Taxation	**(63)**	(58)	**(7)**	(12)	**(70)**	(70)
Profit for the year	**380**	363	**27**	57	**407**	420
Dividends paid and/or declared	**297**	350	**45**	42	**342**	392
Net assets employed:						
Non-current assets	**537**	468	**356**	301	**893**	769
Current assets	**765**	628	**225**	174	**990**	802
	1,302	1,096	**581**	475	**1,883**	1,571
Current liabilities	**(405)**	(313)	**(285)**	(171)	**(690)**	(484)
Non-current liabilities	**(129)**	(99)	**–**	–	**(129)**	(99)
	768	684	**296**	304	**1,064**	988
Financed by:						
Shareholders' equity	**768**	684	**296**	304	**1,064**	988

17. Financial instruments by category

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

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

	Derivatives HK$M	Other financial liabilities HK$M	Total HK$M	Other financial liabilities HK$M
At 31st December 2010				
Liabilities				
Trade and other payables	–	972	972	576
Borrowings	–	1,428	1,428	100
Total	**–**	**2,400**	**2,400**	**676**

	Loans and receivables HK$M	Derivatives used for hedging HK$M	Total HK$M	Loans and receivables HK$M
At 31st December 2009				
Assets				
Derivative financial instruments	–	17	17	–
Trade and other receivables	538	–	538	464
Loan to a subsidiary company	–	–	–	11
Bank balances and short-term deposits	983	–	983	393
Total	1,521	17	1,538	868

	Derivatives HK$M	Other financial liabilities HK$M	Total HK$M	Other financial liabilities HK$M
At 31st December 2009				
Liabilities				
Derivative financial instruments	15	–	15	–
Trade and other payables	–	989	989	605
Borrowings	–	1,126	1,126	200
Total	15	2,115	2,130	805

Note: No derivatives are recognised at fair value through profit and loss (2009: same)

18. Retirement benefits

(a) Overall

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

The Hong Kong Aircraft Engineering Company Limited Local Staff Retirement Benefits Scheme ("Local Scheme") provides resignation and retirement benefits to its members upon their cessation of service with the Company. The Company meets the full cost of all benefits due by the 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 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") (formerly known as Watson Wyatt Hong Kong Limited), for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance. For the year ended 31st December 2009, the HKAS 19 disclosures shown in the financial statements were based on valuations prepared by Towers Watson at 31st December 2009. For the year ended 31st December 2010, the HKAS 19 disclosures were based on valuations prepared by Towers Watson at 31st December 2009, which were updated at 31st December 2010 by Cannon Trustees Limited, the main administration manager of the Company's defined benefit schemes.

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

	Group	
	2010	2009
	HK$M	HK$M
Local Scheme	**(11)**	57
Expatriate Scheme	**(4)**	3
MPF, statutory and other defined contribution schemes	**65**	60
	50	120

(b) Defined benefits retirement schemes

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

	Group					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Current service cost	**82**	82	**4**	4	**86**	86
Interest cost	**89**	93	**5**	6	**94**	99
Expected return on plan assets – gain	**(182)**	(121)	**(13)**	(9)	**(195)**	(130)
Net actuarial losses recognised	**–**	3	**–**	2	**–**	5
Total	**(11)**	57	**(4)**	3	**(15)**	60
Actual return on plan assets – gain	**287**	581	**21**	48	**308**	629

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 31st December:						
Fair value of plan assets	**2,481**	2,312	**174**	166	**2,655**	2,478
Present value of obligations	**(2,010)**	(1,924)	**(104)**	(107)	**(2,114)**	(2,031)
Net assets	**471**	388	**70**	59	**541**	447
Net unrecognised actuarial gains	**(225)**	(167)	**(15)**	(8)	**(240)**	(175)
Net retirement benefit assets recognised in the statement of financial position	**246**	221	**55**	51	**301**	272

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Assets at 1st January	**221**	157	**51**	54	**272**	211
Increase due to:						
Total income/(expense) – as shown above	**11**	(57)	**4**	(3)	**15**	(60)
Contributions paid	**14**	121	**–**	–	**14**	121
Assets at 31st December	**246**	221	**55**	51	**301**	272

None (2009: HK$67 million) of the contributions paid represent supplementary lump-sum funding contributions.

Principal actuarial assumptions for the year:

	Group and Company			
	Local Scheme		Expatriate Scheme	
	2010	2009	**2010**	2009
Discount rate	**4.40%**	4.75%	**4.40%**	4.75%
Expected rate of return on plan assets	**8.00%**	8.00%	**8.00%**	8.00%
Expected rate of future salary increases	**3.61%**	4.00%	**3.01%**	4.00%

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.

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	2010	2009	2010	2009
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 1st January	2,312	1,735	166	142	2,478	1,877
Employer contributions	14	121	–	–	14	121
Employee contributions	–	–	2	2	2	2
Expected return	182	121	13	9	195	130
Benefits paid	(132)	(125)	(15)	(26)	(147)	(151)
Actuarial gains	105	460	8	39	113	499
At 31st December	2,481	2,312	174	166	2,655	2,478

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	2010	2009	2010	2009
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 1st January	1,924	1,790	107	115	2,031	1,905
Employee contributions	–	–	2	2	2	2
Current service cost	82	82	4	4	86	86
Interest cost	89	93	5	6	94	99
Benefits paid	(132)	(125)	(15)	(26)	(147)	(151)
Actuarial losses	47	84	1	6	48	90
At 31st December	2,010	1,924	104	107	2,114	2,031

The major categories of plan assets are as follows:

	Group and Company							
	Local Scheme				Expatriate Scheme			
	2010	2010	2009	2009	2010	2010	2009	2009
	HK$M	%	HK$M	%	HK$M	%	HK$M	%
Equities	1,802	73%	1,678	73%	121	70%	115	69%
Bonds	674	27%	634	27%	53	30%	51	31%
Cash and others	5	–	–	–	–	–	–	–
Total	2,481	100%	2,312	100%	174	100%	166	100%

Allowing for current market condition, a range of potential returns may be expected for the Schemes' invested assets. Based on the Schemes' benchmark asset allocation of 70% in equities and 30% in bonds and cash, and allowing for administration fees and other expense charged to the Schemes, the Company has decided to adopt a long-term return of 8.0% per annum.

Expected employer contributions for the year ending 31st December 2011 are HK$16 million for Local Scheme and nil for Expatriate Scheme.

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

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

	Group and Company				
	Total				
	2010	2009	2008	2007	2006
	HK$M	HK$M	HK$M	HK$M	HK$M
Fair value of plan assets	**2,655**	2,478	1,877	3,039	2,676
Present value of defined benefit obligations	**(2,114)**	(2,031)	(1,905)	(2,334)	(2,155)
Surplus/(deficit)	**541**	447	(28)	705	521
Experience gains/(losses) on plan liabilities	**31**	(26)	11	(11)	87
Experience gains/(losses) on plan assets	**113**	499	(1,251)	288	276

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 HK$M
Deferred tax assets	
At 1st January 2009	32
Credited to other comprehensive income	7
At 31st December 2009 and 2010	**39**

	Group			
	Accelerated tax depreciation HK$M	Retirement benefit assets HK$M	Others HK$M	Total HK$M
Deferred tax liabilities				
At 1st January 2009	219	10	43	272
Charged to income statement	30	–	9	39
At 31st December 2009	249	10	52	311
(Credited)/charged to income statement	(5)	–	13	8
At 31st December 2010	**244**	**10**	**65**	**319**

19. Deferred taxation (continued)

	Company			
	Accelerated tax depreciation HK$M	Retirement benefit assets HK$M	Others HK$M	Total HK$M
Deferred tax liabilities				
At 1st January 2009	219	10	(14)	215
Charged to income statement	30	–	11	41
At 31st December 2009	249	10	(3)	256
(Credited)/charged to income statement	(5)	–	10	5
At 31st December 2010	**244**	**10**	**7**	**261**

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% (2009: 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$205 million (2009: HK$96 million) to carry forward against future taxable income. Tax losses of HK$44 million will expire in 2013, HK$66 million will expire in 2014, HK$59 million will expire in 2015 and HK$36 million have no expiry date (2009: HK$23 million in 2013; HK$46 million in 2014; HK$27 million no expiry date).

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

	Group	
	2010	2009
	HK$M	HK$M
Deferred tax assets:		
To be recovered after more than 12 months	**36**	38
To be recovered within 12 months	**3**	1
	39	39

	Group	
	2010	2009
	HK$M	HK$M
Deferred tax liabilities:		
To be settled after more than 12 months	**270**	299
To be settled within 12 months	**49**	12
	319	311

	Company	
	2010	2009
	HK$M	HK$M
Deferred tax liabilities:		
To be settled after more than 12 months	**217**	247
To be settled within 12 months	**44**	9
	261	256

20. Derivative financial instruments

	Group			
	Assets		Liabilities	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts:				
Cash flow hedges	**8**	17	**–**	15
Less non-current portion				
Forward foreign exchange contracts:				
Cash flow hedges	**1**	4	**–**	–
Current portion	**7**	13	**–**	15

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

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31st December 2010 were HK$212 million (2009: HK$726 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 24 months. Gains and losses recognised in the cash flow hedge reserve in equity (note 27) on forward foreign exchange contracts as of 31st December 2010 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the consolidated income statement. This is generally within two years from the reporting date.

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

The Company has guaranteed the drawn components of bank loans of a subsidiary company. Under the terms of the financial guarantee contracts, the Company will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due.

The liabilities guaranteed will mature at various dates in 2011 and 2012. Their face values are as follows:

	Company	
	2010	2009
	HK$M	HK$M
Bank loans of a subsidiary company	**653**	448

22. Stocks

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Carrying amounts at net realisable value:				
Stocks	**269**	192	**203**	154

The remaining balances are carried at cost.

23. Trade and other receivables

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Trade receivables – in HK dollars	**57**	97	**57**	97
– in US dollars	**291**	204	**161**	131
– in other currencies	**42**	29	**–**	–
	390	330	**218**	228
Less: Provision for impairment of receivables	**–**	(2)	**–**	(2)
	390	328	**218**	226
Amounts due from subsidiary companies	**–**	–	**145**	122
Amounts due from jointly controlled companies	**52**	33	**17**	10
Amounts due from related parties	**101**	49	**60**	22
Other receivables and prepayments	**197**	126	**132**	82
	740	536	**572**	462

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, interest free and on normal trade credit terms.

The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Current	**166**	177	**93**	116
Up to 3 months overdue	**132**	78	**65**	50
3 to 6 months overdue	**15**	5	**1**	1
Over 6 months overdue	**77**	70	**59**	61
	390	330	**218**	228

The above ageing analysis includes the receivables due from OASIS Hong Kong Airlines Limited arising from 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.

23. Trade and other receivables (continued)

At 31st December 2010, no trade receivables of the Group (2009: HK$2 million) and of the Company (2009: HK$2 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	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Up to 3 months overdue	**–**	2	**–**	2
	–	2	**–**	2

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
At 1st January	**2**	20	**2**	19
Provision for impairment of receivables	**–**	2	**–**	2
Utilised during the year	**–**	(20)	**–**	(19)
Unused amounts reversed	**(2)**	–	**(2)**	–
At 31st December	**–**	2	**–**	2

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.

24. Trade and other payables

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Trade payables	**71**	77	**25**	32
Amounts due to subsidiary companies	**–**	–	**5**	34
Amounts due to jointly controlled companies	**3**	2	**–**	2
Amounts due to related parties	**17**	21	**16**	10
Other payables and accruals	**881**	889	**530**	527
	972	989	**576**	605

24. Trade and other payables (continued)

The ageing analysis of trade payables is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Current	**67**	70	**25**	30
Up to 3 months overdue	**4**	7	**–**	2
	71	77	**25**	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, interest free and on normal trade credit terms.

25. Borrowings

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Short-term loans – in HK dollars	**92**	267	**–**	200
– in US dollars	**128**	158	**–**	–
– in other currency	**3**	–	**–**	–
	223	425	**–**	200
Long-term loans at amortised cost				
– in HK dollars	**204**	30	**100**	–
– in US dollars	**1,001**	671	**–**	–
	1,205	701	**100**	–
Less: amount due within one year included under current liabilities				
– in US dollars	**639**	106	**–**	–
	566	595	**100**	–

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

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Bank loans:				
Repayable within one year	**639**	106	**–**	–
Repayable between one and two years	**566**	437	**100**	–
Repayable between two and five years	**–**	158	**–**	–
	1,205	701	**100**	–

25. Borrowings (continued)

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
6 months or less	**1,428**	1,126	**100**	200

The Group's and Company's weighted average effective interest rates per annum at 31st December 2010 are 1.35% (2009: 0.95%) and 1.12% (2009: 0.62%) respectively.

26. Share capital

	Company			
	2010		2009	
	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, no purchase, sale or redemption of the Company's shares has been effected on the Hong Kong Stock Exchange by the Company or its subsidiary companies.

27. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Group										
At 1st January	**4,980**	4,749	**19**	19	**11**	10	**1**	17	**5,011**	4,795
Profit for the year	**701**	688	**–**	–	**–**	–	**–**	–	**701**	688
Other comprehensive income										
Cash flow hedges										
– recognised during the year	**–**	–	**–**	–	**–**	–	**3**	6	**3**	6
– deferred tax	**–**	–	**–**	–	**–**	–	**–**	4	**–**	4
– transferred to other net gains	**–**	–	**–**	–	**–**	–	**–**	(26)	**–**	(26)
Net translation differences on foreign operations	**–**	–	**–**	–	**27**	1	**–**	–	**27**	1
Total comprehensive income/(loss) for the year	**701**	688	**–**	–	**27**	1	**3**	(16)	**731**	673
Previous year's final dividend paid	**(249)**	(374)	**–**	–	**–**	–	**–**	–	**(249)**	(374)
Current year's interim dividend paid	**(75)**	(83)	**–**	–	**–**	–	**–**	–	**(75)**	(83)
Change in composition of Group (note 33)	**(21)**	–	**–**	–	**–**	–	**–**	–	**(21)**	–
At 31st December	**5,336**	4,980	**19**	19	**38**	11	**4**	1	**5,397**	5,011
Company										
At 1st January	**3,511**	3,320	**19**	19	**–**	–	**–**	–	**3,530**	3,339
Total comprehensive income for the year	**697**	648	**–**	–	**–**	–	**–**	–	**697**	648
Previous year's final dividend paid	**(249)**	(374)	**–**	–	**–**	–	**–**	–	**(249)**	(374)
Current year's interim dividend paid	**(75)**	(83)	**–**	–	**–**	–	**–**	–	**(75)**	(83)
At 31st December	**3,884**	3,511	**19**	19	**–**	–	**–**	–	**3,903**	3,530

The Group and Company revenue reserves include HK$274 million (2009: HK$249 million) representing the proposed final dividend for the year (note 11).

28. Non-controlling interests

	Group	
	2010	2009
	HK$M	HK$M
At 1st January	**964**	939
Share of profit for the year	**22**	72
Share of cash flow hedge reserve	**2**	(13)
Share of net translation differences on foreign operations	**7**	–
Share of total comprehensive income for the year	**31**	59
Acquisition of non-controlling interests in a subsidiary company	**(42)**	–
Dividends payable	**(32)**	(34)
At 31st December	**921**	964

29. Receipt in advance

An advanced payment was received from Cathay Pacific Airways Limited in 2005 for storage services charges up to June 2018. At 31st December 2010, the current portion included in other payables under current liabilities is HK$10 million (2009: HK$11 million) while the non-current portion is HK$69 million (2009: HK$79 million).

30. Notes to the consolidated statement of cash flows

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

	Group	
	2010	2009
	HK$M	HK$M
Operating profit	**397**	385
Depreciation, amortisation and impairment provision	**381**	358
Other net gains	**(18)**	10
Operating profit before working capital changes	**760**	753
Increase in retirement benefit assets	**(29)**	(61)
Increase in stocks and work in progress	**(104)**	(7)
(Increase)/decrease in trade and other receivables in relation to operating activities	**(190)**	96
Increase in trade and other payables in relation to operating activities	**51**	20
Decrease in receipt in advance	**(10)**	(11)
Cash generated from operations	**478**	790

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

	Group	
	2010	2009
	HK$M	HK$M
Cash and cash equivalents	**1,098**	844
Deposits maturing after three months	**154**	139
	1,252	983

The Group's and Company's weighted average effective interest rates per annum on deposits at 31st December 2010 are 1.14% (2009: 0.73%) and 0.26% (2009: 0.05%) respectively. The deposits have an average maturity of 69 days (2009: 59 days) for the Group and 46 days (2009: 28 days) for the Company.

31. Capital commitments

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for in the financial statements	**303**	201	**136**	12
Authorised by Directors but not contracted for	**631**	1,182	**149**	124
	934	1,383	**285**	136
The Group's share of capital commitments of jointly controlled companies not included above:				
Contracted but not provided for in the financial statements	**29**	149		
Authorised by Directors but not contracted for	**44**	80		

Capital commitments mainly relate to the acquisition of rotable spares by the Company, the construction of a sixth hangar by TAECO and engine overhaul facilities by TEXL at Xiamen, Mainland China.

32. Lease commitments

At 31st December 2010, the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Land and buildings				
Not later than 1 year	**104**	106	**103**	105
Later than 1 year but not later than 5 years	**394**	408	**394**	407
Later than 5 years	**2,138**	2,362	**2,138**	2,362
	2,636	2,876	**2,635**	2,874

33. Transactions with non-controlling interests

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

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

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

34. 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.

35. 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 aggregated 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	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
		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*	**–**	–	**–**	–	**1,818**	1,891	**1,818**	1,891
Other revenue	*b*	**66**	49	**–**	–	**–**	–	**66**	49
		66	49	**–**	–	**1,818**	1,891	**1,884**	1,940
Purchases:									
Costs payable to John Swire & Sons (H.K.) Limited under services agreement									
– Service fees payable during the year	*a*	**–**	–	**–**	–	**19**	20	**19**	20
– Expenses reimbursed at cost	*a*	**–**	–	**–**	–	**41**	36	**41**	36
Subtotal	*a*	**–**	–	**–**	–	**60**	56	**60**	56
– Share of administrative services		**–**	–	**–**	–	**3**	4	**3**	4
Total		**–**	–	**–**	–	**63**	60	**63**	60
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		**–**	–	**–**	–	**4**	4	**4**	4
Risk management service		**–**	–	**5**	–	**–**	–	**5**	–
Spares purchases from Cathay Pacific Airways Limited Group		**–**	–	**–**	–	**20**	16	**20**	16
Other purchases	*c*	**18**	3	**–**	–	**10**	9	**28**	12
		18	3	**5**	–	**97**	89	**120**	92

35. 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 maintenance support charges from STAECO, and aircraft component overhaul charges by HAESL and SAESL.*

d. *Amounts due from and due to jointly controlled companies and other related parties at 31st December 2010 are disclosed in notes 23 and 24 to the accounts.*

e. *Continuing connected transactions during 2010:*

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

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

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

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

For the year ended 31st December 2010, the fees payable by CX Group to HAECO Group under the Framework Agreement totalled HK$1,818 million.

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

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

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

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

Swire is the ultimate holding company of Swire Pacific Limited which owns approximately 74.99% (2009: 45.96%) 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 2010, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$19 million and expenses of HK$41 million were reimbursed at cost.

36. Principal subsidiary and jointly controlled companies at 31st December 2010

	Place of incorporation and operation	Principal activities	Issued share capital	Owned directly	Owned by subsidiary and jointly controlled companies	Attributable to the Group
Subsidiary Companies:						
HAECO ATE Component Service Limited	Hong Kong	Aircraft component repair services	Share capital of HK$2,000,000	100%	–	100%
Singapore HAECO Pte. Limited	Singapore	Line maintenance	Share capital of SGD1	100%	–	100%
Taikoo (Xiamen) Aircraft Engineering Company Limited *	Xiamen	Aircraft overhaul and maintenance	Registered capital of US$41,500,000	58.55%	–	58.55%
Taikoo Engine Services (Xiamen) Company Limited *	Xiamen	Commercial aero engine overhaul services	Registered capital of US$63,000,000	75.01%	10%	80.87%
Taikoo (Xiamen) Landing Gear Services Company Limited *	Xiamen	Landing gear repair and overhaul	Registered capital of US$13,890,000	50%	10%	55.86%
Jointly Controlled Companies:						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited *	Jinjiang	Tyre services for commercial aircraft	Registered capital of US$5,000,000	28%	9%	33.27%
Goodrich Asia-Pacific Limited	Hong Kong	Carbon brake machining and wheel hub overhaul	Share capital of HK$9,200,000	49%	–	49%
Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited * #	Xiamen	Aircraft fuel control, flight control and electrical component repairs	Registered capital of US$5,000,000	–	35%	20.49%
Honeywell TAECO Aerospace (Xiamen) Company Limited *	Xiamen	Aircraft hydraulic, pneumatic, avionic component and other aviation equipment repairs	Registered capital of US$5,000,000	25%	10%	30.86%
Hong Kong Aero Engine Services Limited	Hong Kong	Commercial aero engine overhaul services	Share capital of HK$200	45%	–	45%
Singapore Aero Engine Services Pte. Limited #	Singapore	Commercial aero engine overhaul services	Share capital of US$54,000,000	–	20%	9%
Taikoo (Shandong) Aircraft Engineering Company Limited * #	Jinan	Heavy 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.*

Principal Accounting Policies

1. Basis of preparation

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

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

The Group has adopted the following revised HKFRS, amendments and interpretations effective from 1st January 2010.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK-Int 5	Presentation of Financial Statements
Annual improvements to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants in May 2009	

The revised HKAS 27 requires changes in a parent company's interest in subsidiary companies that do not result in any change of control to be accounted for within equity, with no impact on goodwill or gains and losses. If a change in interest results in a loss of control, any remaining interest in the equity is re-measured to fair value and a gain or loss will be recognised in the income statement. The revised HKAS 27 has also resulted in the renaming of "minority interests" as "non-controlling interests".

The revised HKFRS 3 requires all payments to purchase a business to be recorded at fair value at the acquisition date. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's assets. All acquisition-related costs should be expensed.

The acquisition of additional interests in TAECO during the year from a non-controlling interest (as detailed in note 33 to the financial statements) has been accounted for in accordance with the revised HKAS 27 and HKFRS 3.

HK Interpretation 5 clarifies that the classification of a term loan as a current or non-current liability shall be determined by reference to the rights and obligations of the lender and the borrowers as contractually agreed. It is also dependent on whether or not the borrower has an unconditional right to defer payment for at least twelve months after the reporting date. This has had no impact on the accounts.

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

1. Basis of preparation (continued)

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

		Effective for accounting periods beginning on or after
HKAS 24 (Revised)	Related Party Disclosures	1st January 2011
HKFRS 9	Financial Instruments	1st January 2013
Third Improvements to HKFRSs – Amendments to:		
HKAS 1	Presentation of Financial Statements	1st January 2011
HKAS 34	Interim Financial Reporting	1st January 2011
HKFRS 7	Financial Instruments: Disclosures	1st January 2011

The revised HKAS 24 introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. It also clarifies and simplifies the definition of a related party.

HKFRS 9 is the first part of a three-part project to replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The approach in HKFRS 9 is based on how a company manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the different impairment methods in HKAS 39.

The Improvements to HKFRSs consist of further amendments of existing standards. The amendment to HKAS 1 clarifies the presentation of statement of changes in equity. The amendment to HKAS 34 provides guidance to illustrate how to apply disclosure principles in HKAS 34 and add disclosure requirements. The amendment to HKFRS 7 clarifies the disclosure requirements for financial instruments.

It is not expected that these standards, revisions, amendments and interpretations will have a significant effect on the Group's results, net assets or accounting policies.

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 the statement of comprehensive income.

2. Basis of consolidation (continued)

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

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

3. Subsidiary companies

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

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

4. Jointly controlled companies

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

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

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.

4. Jointly controlled companies (continued)

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

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

5. Segment reporting

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

6. Foreign currency translation

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

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

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

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

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

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

7. Assets under operating leases

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

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

8. Property, plant and equipment

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

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

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

Buildings and building facilities	2% to 10% per annum
Equipment, plant, machinery and tools	7% to 33% per annum
Motor vehicles	18% to 20% per annum
Rotable spares	7% per annum
Assets under construction	Nil

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

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

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

9. Intangible assets

(a) Goodwill

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

(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 of twenty two years.

10. Impairment of assets

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

11. Financial assets

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

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

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

11. Financial assets (continued)

(b) Loans and receivables

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

(c) Available-for-sale assets

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

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

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

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

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

12. Derivative financial instruments and hedging activities

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

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

(a) Fair value hedges

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

12. Derivative financial instruments and hedging activities (continued)

(b) Cash flow hedge

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

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

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

(c) Net investment hedge

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

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

(d) Derivatives that do not qualify for hedge accounting

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

13. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiary or jointly controlled companies to secure loans, overdrafts and other banking facilities. Financial guarantees are recorded in the financial statements at fair value.

14. Stocks and work in progress

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

15. Trade and other receivables

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

16. Cash and cash equivalents

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

17. Share capital

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

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

18. Trade payables

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

19. Borrowings

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

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

20. Borrowing Costs

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

21. Deferred taxation

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

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

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

22. Provisions

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

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

23. Turnover and revenue recognition

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

Finance income is recognised on an accrual basis.

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

24. Staff benefits

(a) Retirement benefits

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

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

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

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

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

(b) Staff leave entitlements

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

25. Dividend distribution

Final 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. Interim 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 Board.

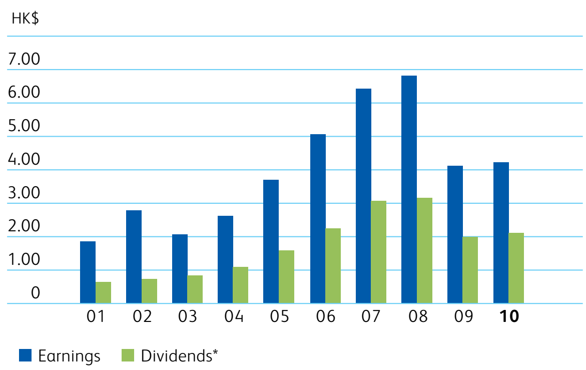
26. Related parties

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

Ten-year Financial Summary

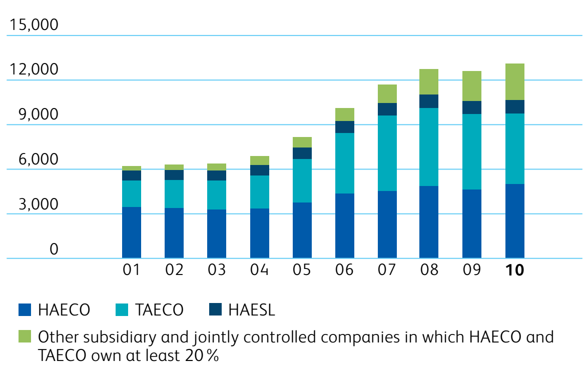
	2001	2002	2003
(in HK$ Million)			
Turnover	1,983	2,118	1,992
Net operating profit	127	276	104
Share of after-tax results of jointly controlled companies	197	227	263
Profit attributable to the Company's shareholders	312	465	345
Dividends	108	539	306
Net assets employed			
Non-current assets	1,636	1,597	1,513
Net current assets/(liabilities) excluding deposits and loans	1,067	1,145	1,159
Cash surplus/(Net borrowings)	15	440	316
Less: non-current liabilities excluding loans	–	–	–
	2,718	3,182	2,988
Financed by			
Equity attributable to the Company's shareholders	2,713	3,177	2,983
Non-controlling interests	5	5	5
	2,718	3,182	2,988
(in HK$)			
Results per share			
Earnings attributable to the Company's shareholders	1.87	2.80	2.07
Interim and final dividends	0.65	0.74	0.84
Special dividend	–	2.50	1.00
Equity attributable to the Company's shareholders	16.30	19.10	17.93
Number of staff			
HAECO	3,445	3,399	3,297
TAECO	1,792	1,870	1,927
HAESL	668	683	678
Other subsidiary and jointly controlled companies in which HAECO and TAECO own at least 20%	316	362	499
	6,221	6,314	6,401
Ratio			
Return on equity	11.9%	15.8%	11.2%
Profit margin	5.8%	11.2%	4.1%
Dividend cover – times*	2.88	3.78	2.46
Gearing ratio	–	–	–
Interest cover – times	NA	NA	27.00
(in HK$)			
Share prices			
High	14.80	24.40	48.00
Low	10.10	11.90	20.10
Year-end	12.00	23.00	46.00
Market information			
Price/earnings – times	6.42	8.21	22.22
Market capitalisation (HK$ Million)	1,997	3,825	7,651

Earnings and Dividends Per Share*



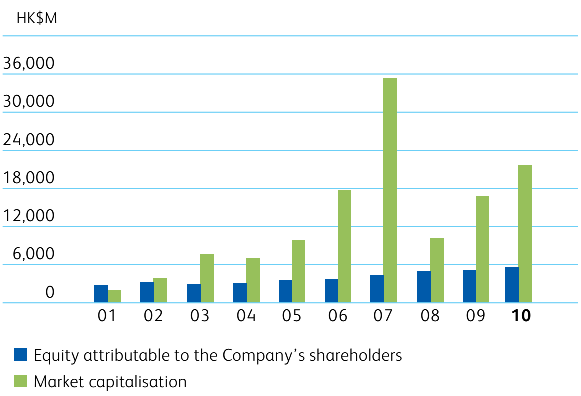
* *Dividends represent the interim and final dividends.*

Number of Staff



	2004	2005	2006	2007	2008	2009	2010
	2,134	3,121	3,844	4,619	4,901	4,045	**4,266**
	219	508	779	1,000	1,017	380	**389**
	256	267	330	399	462	420	**407**
	438	618	847	1,073	1,138	688	**701**
	181	266	790	512	529	332	**349**
	3,229	3,495	4,063	4,716	6,227	6,789	**6,902**
	68	45	(212)	(38)	(162)	(115)	**146**
	476	877	834	767	215	(143)	**(176)**
	(169)	(319)	(338)	(551)	(380)	(390)	**(388)**
	3,604	4,098	4,347	4,894	5,900	6,141	**6,484**
	3,109	3,512	3,665	4,409	4,961	5,177	**5,563**
	495	586	682	485	939	964	**921**
	3,604	4,098	4,347	4,894	5,900	6,141	**6,484**
	2.63	3.72	5.09	6.45	6.84	4.14	**4.21**
	1.09	1.60	2.25	3.08	3.18	2.00	**2.10**
	–	–	2.50	–	–	–	**–**
	18.69	21.12	22.04	26.51	29.83	31.13	**33.45**
	3,343	3,757	4,356	4,523	4,861	4,621	**4,967**
	2,250	2,945	4,098	5,086	5,268	5,094	**4,739**
	689	750	805	844	908	892	**901**
	599	731	859	1,245	1,701	2,008	**2,471**
	6,881	8,183	10,118	11,698	12,738	12,615	**13,078**
	14.4%	18.7%	23.6%	26.6%	24.3%	13.6%	**13.1%**
	9.1%	14.2%	18.2%	19.8%	18.1%	8.4%	**7.4%**
	2.42	2.32	2.26	2.10	2.15	2.07	**2.01**
	–	–	–	–	–	2.3%	**2.7%**
	74.00	NA	NA	NA	NA	77.00	**49.63**
	47.10	66.00	120.00	246.20	215.00	112.00	**150.00**
	32.00	39.90	59.50	104.00	44.60	64.00	**79.00**
	41.90	59.50	106.00	212.20	63.70	100.80	**129.90**
	15.93	15.99	20.83	32.89	9.31	24.35	**30.86**
	6,969	9,896	17,630	35,294	10,595	16,766	**21,606**

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 2011

Annual Report available to shareholders	7th April
Shares trade ex-dividend	6th May
Share registers closed	11th – 17th May
Annual General Meeting	17th May
Payment of 2010 final dividend	26th May
Interim results announcement	August
Interim dividend payable	September

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