HAECO

Hong Kong Aircraft Engineering Company Limited

Stock Code: 00044

2013 Interim Report

SWIRE

Financial Highlights

		Six months ended 30th June 2013	Six months ended 30th June 2012 (Restated)	Change
Results				
Turnover	*HK$ Million*	**3,222**	2,899	**+11.1%**
Net operating profit	*HK$ Million*	**155**	280	**-44.6%**
Share of after-tax results of joint venture companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	*HK$ Million*	**255**	254	**+0.4%**
– Other joint venture companies	*HK$ Million*	**23**	17	**+35.3%**
Profit attributable to the Company's shareholders	*HK$ Million*	**359**	455	**-21.1%**
Earnings per share attributable to the Company's shareholders (basic and diluted)	*HK$*	**2.16**	2.74	**-21.1%**
First interim dividend per share	*HK$*	**0.80**	0.88	**-9.1%**

		30th June 2013	31st December 2012 (Restated)	Change
Financial Position				
Net borrowings	*HK$ Million*	**433**	261	**+65.9%**
Gearing ratio	*%*	**6.3**	3.8	**+2.5%pt**
Total equity	*HK$ Million*	**6,892**	6,807	**+1.2%**
Equity attributable to the Company's shareholders per share	*HK$*	**34.39**	34.10	**+0.9%**

		Six months ended 30th June 2013	Six months ended 30th June 2012	Change
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	**155**	395	**-60.8%**
Net cash inflow before financing activities	*HK$ Million*	**169**	429	**-60.6%**

Notes:

The weighted average number of shares in issue is 166,324,850 in 2013 (2012: 166,324,850).

Additional financial information of the Group's joint venture companies is presented on page 26.

The Group has implemented the revised HKAS19: Employee Benefits (effective from 1st January 2013), which requires retrospective application. As a result, the 2012 half-year and full-year comparative results have been restated from those in the Group's 2012 half-year and full-year statutory accounts. The details of restatement are disclosed in note 1(b).

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DESIGN:
FORMAT LIMITED
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Chairman's Letter

The HAECO Group reported an attributable profit of HK$359 million for the first six months of 2013. This compares with a profit of HK$455 million for the equivalent period in 2012. Earnings per share decreased by 21.1% to HK$2.16. Turnover increased by 11.1% to HK$3,222 million.

The Directors have declared a first interim dividend of HK$0.80 per share (2012: HK$0.88 per share) for the period ended 30th June 2013, a decrease of 9.1% from the first interim dividend paid in 2012, compared with a decrease of 21.1% in attributable profit. The first interim dividend, which totals HK$133 million (2012: HK$146 million), will be paid on 17th September 2013 to shareholders registered at the close of business on the record date, being Friday, 30th August 2013. Shares of the Company will be traded ex-dividend as from Wednesday, 28th August 2013.

The register of members will be closed on Friday, 30th August 2013, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 29th August 2013.

Overall demand for HAECO's line maintenance services in Hong Kong in the first half of 2013 increased in line with aircraft movements. Airframe maintenance and component overhaul services were adversely affected by shortages of skilled and semi-skilled labour, which resulted in a significant reduction in capacity during the first half of the year. The results of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") improved, reflecting higher demand for its airframe maintenance services. Hong Kong Aero Engine Services Limited ("HAESL") recorded a slight decrease in profit in the period. HAESL's results were adversely affected by reduced demand for engine overhaul services resulting from the early retirement of Boeing 747-400 aircraft belonging to Cathay Pacific. However, the effect of this was mostly offset by stronger than expected demand for overhaul of Trent 700 engines. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") overhauled more engines and as a result reduced its losses in the half-year. The operations of Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO") continued to be affected by the fire which occurred in November 2012 and no landing gear overhaul work was done in the first half of 2013. Work preparatory to reconstruction of TALSCO's premises is being done, with a view to partial resumption of operations in the early part of 2014. The results of the Group's other joint ventures in Mainland China improved over those of the same period last year as output volumes increased and facilities were better utilised.

The Group continued to invest in 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 during the first half of 2013 was HK$285 million. Capital expenditure committed at the end of June was HK$1,078 million.

The overall labour market in Hong Kong continues to be tight. HAECO in particular continues to suffer from a shortage of skilled and semi-skilled labour. The effect on HAECO's aircraft maintenance capacity is particularly severe because of the need to transfer staff from airframe maintenance to line maintenance to support the growth of the latter business. Since last year, various efforts have been made to improve remuneration, career development opportunities and training with the view to recruiting and retaining high quality staff. The rate of attrition has slowed, but it takes a long time to train new staff to reach the required standard. The Company is working closely with local educational institutions to promote career and job opportunities in the aircraft maintenance industry, and continues to seek support from the Hong Kong Special Administrative Region Government for the importation on contract of overseas qualified engineers and mechanics to ease constraints on the availability of people with such skills in the local labour market.

The outlook is challenging. Forward bookings for HAECO's airframe maintenance services in Hong Kong are weak by historical standards and are in any event constrained by the shortage of skilled and semi-skilled labour. Demand for line maintenance services is expected to continue to grow in line with the growth of aircraft movements at Hong Kong International Airport, despite an uncertain outlook for movements of cargo aircraft. Demand for TAECO's airframe maintenance services in the second half of the year is expected to be good. HAESL's performance is expected to continue to be affected by a reduction in demand for engine overhaul services resulting from the early retirement of Boeing 747-400 aircraft belonging to Cathay Pacific. Except at TALSCO, output is expected to increase at the Mainland China joint ventures, but they are likely to continue to be affected by under-utilisation of facilities. The Group will continue to take measures to improve productivity in order to mitigate the effect of cost increases.

Christopher Pratt
Chairman
Hong Kong, 13th August 2013

2013 Interim Review

The Group's airframe maintenance services in Hong Kong were adversely affected by shortages of skilled and semi-skilled labour in the first half of 2013. This in turn had an adverse effect on the Group's financial results. Despite this, the Group continued to invest in the expansion of its capacity and technical capabilities.

AIRFRAME MAINTENANCE

HAECO was ranked second in the "Top 10 Airframe MROs" published by Aviation Week & Space Technology in June.

During the first half of 2013, TAECO obtained the following approvals in relation to aircraft maintenance.

Approval authority	Aircraft type
Civil Aviation Authority of the Philippines ("CAAP")	Boeing 777
Maldives Civil Aviation Authority	Boeing 757 and 767
Civil Aviation Administration of China ("CAAC")	Airbus A330 and Boeing 737NG and 777
Department of Civil Aviation, Thailand ("TDCA")	Boeing 737

In the second half of 2013, TAECO expects to obtain approvals in relation to aircraft maintenance from the Japan Civil Aviation Bureau for work on Airbus A320 aircraft and from TDCA for work on Boeing 767 aircraft.

In the first half of 2013, Taikoo (Shandong) Aircraft Engineering Company Limited obtained approval from TDCA to fabricate parts, was successfully audited by CAAC in connection with passenger to freighter conversions on Boeing 737CL aircraft and received approval from CAAC to issue certificates as an examination centre for civil aircraft maintenance licences.

LINE MAINTENANCE

In April 2013, TAECO received approvals from the Department of Civil Aviation of Mauritius to do line maintenance on Airbus A330 and A340 aircraft at Shanghai Pudong International Airport. TAECO's in-flight entertainment workshop was approved by the US Federal Aviation Administration ("FAA") in January 2013 and by the European Aviation Safety Agency ("EASA") in February 2013. TAECO plans to obtain approvals from EASA to do light checks on Airbus A380 aircraft and from FAA to do light checks on Boeing 777 aircraft, in each case at Beijing Capital International Airport.

Singapore HAECO Pte. Limited ("SHAECO") is developing its capability (including by training staff) to do line maintenance on Boeing 787 aircraft and is applying to the Civil Aviation Authority of Singapore for approval to do line maintenance on Airbus A330 and Boeing 777 aircraft.

Shanghai Taikoo Aircraft Engineering Services Company Limited ("STA") has received approval from the Ministry of Land, Transport and Maritime Affairs of the Republic of Korea to do line maintenance on Airbus A320, A321 and A330, and Boeing 747, 747-8F, 767 and 777 aircraft and has applied for approvals to do line maintenance on Airbus A300, A310 and A330, and Boeing 747, 747-400F, 747-8F, 767, 777, 777F and MD-11 aircraft from EASA and on Airbus A320, A330 and A340 aircraft from CAAP.

ENGINE OVERHAUL

TEXL expects to have completed work on its 100th engine and to have obtained a C7 component repair rating from EASA, before the end of 2013. This rating will allow it to repair certain GE90 module components being removed from engines by other facilities.

COMPONENT AND AVIONICS OVERHAUL

Goodrich Asia Pacific Limited can now repair line replacement units on Boeing 787 aircraft and, with support from United Technology Company, is adopting the ACE (Achieving Competitive Excellence) operating system with a view to improving efficiency.

In the first half of 2013, Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited received approvals from the civil aviation authorities of the Mainland China, the European Union, Australia, the Philippines, Indonesia and Thailand to retread more products of the Dunlop, Bridgestone, Goodyear and Michelin companies.

Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("Taikoo Spirit") can now repair the full nacelle bar and the common nozzle of CFM56-7, Trent 800 and GE90 engines and expects to be able to do work on CFM56-5B engines, enabling it to work on both engine types installed on Airbus A320 aircraft.

INVENTORY TECHNICAL MANAGEMENT AND FLEET TECHNICAL MANAGEMENT

Following entry into an agreement with Boeing in relation to its GoldCare programme, HAECO ITM Limited ("HXITM") can provide inventory technical management services for Boeing 747-8 aircraft.

TECHNICAL TRAINING

HAECO and TAECO continue to provide training to their own staff, to their airline customers and to individuals interested in aircraft maintenance at their training centres in Hong Kong and Xiamen.

HAECO's training centre conducted 432 training courses for 6,093 internal and external students in the first half of 2013.

TAECO's training centre conducted 166 external training classes for 3,079 students from Mainland China, Hong Kong, Singapore, Malaysia, Thailand and Taiwan in the first half of 2013. Classes conducted included approved type training courses, EASA Part 147 basic training programmes, CCAR-147 component training programmes, CCAR-66 basic skills training programmes and Part 145 courses. TAECO's training centre also conducted 615 examinations.

Review of Operations

HAECO and TAECO sold 3.27 million manhours for airframe maintenance in the first half of 2013. Workload decreased at HAECO by 17.5% but increased at TAECO by 10.2%. HAECO did more line maintenance, reflecting increased aircraft movements at Hong Kong International Airport.

The profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		
	2013 HK$M	2012 HK$M (Restated)	**Change**
HAECO	**44**	178	**-75.3%**
TAECO	**62**	46	**+34.8%**
Share of:			
HAESL and SAESL	**255**	254	**+0.4%**
Other subsidiary and joint venture companies	**(2)**	(23)	**+91.3%**
	359	455	**-21.1%**

	Six months ended 30th June		
	2013	2012	**Change**
Airframe maintenance sold manhours (in millions)			
HAECO	**1.32**	1.60	**-17.5%**
TAECO	**1.95**	1.77	**+10.2%**
Line maintenance aircraft movements (per day)			
HAECO	**326**	319	**+2.2%**
TAECO and STA	**83**	72	**+15.3%**

HAECO

HAECO's business (all in Hong Kong) comprises airframe maintenance, line maintenance at the passenger and cargo terminals at Hong Kong International Airport, component and avionics overhaul and fleet technical management. Business in Hong Kong was weak in the first half of 2013. HAECO recorded a 75.3% decrease in profit compared to the equivalent period in 2012.

Airframe maintenance manhours sold were 1.32 million, 17.5% lower than in the first half of 2012. The reduction reflected shortages of skilled and semi-skilled labour. Approximately 79.4% of the work was for airlines based outside Hong Kong.

Line maintenance aircraft movements increased by 2.2% compared with the first half of 2012, with an average of 326 aircraft handled per day. There were more passenger aircraft movements and slightly fewer cargo aircraft movements.

Component repair activity at the Tseung Kwan O facility totalled 0.14 million manhours sold, 7.3% lower than in the first half of 2012. The reduction reflected shortages of skilled and semi-skilled labour, which also affected the development of component repair capabilities.

Forward bookings for HAECO's airframe maintenance services are weak and in any event are constrained by labour shortages. Demand for line maintenance services is expected continue to grow in line with the growth of aircraft movements at Hong Kong International Airport, despite an uncertain outlook for movements of cargo aircraft.

TAECO

Demand for TAECO's airframe maintenance services was strong in the first half of 2013. Total manhours sold were 1.95 million, representing a 10.2% increase from the same period in 2012. Demand for the conversion of narrow-body passenger aircraft to cargo aircraft was stable. One conversion of a Boeing 737 passenger aircraft was completed in the half-year. However, there was no conversion of wide-body passenger aircraft to cargo aircraft.

TAECO does line maintenance in Xiamen, Beijing, Tianjin and Chongqing. It handled an average of 44 aircraft movements per day in the first half of 2013.

Revenues for manufacturing and training in the first half of 2013 were better than expected, increasing by 64.1% and 22.6% respectively in comparison with the first half of 2012.

In the second half of 2013, TAECO is expecting to complete its first cabin configuration of a corporate jet.

TAECO's results for the whole of 2013 are expected to benefit from a continued increase in workload, but this will be partly offset by increased labour (in particular skilled labour) costs.

HAESL

HAESL (45% owned) recorded a 2.0% decrease in profit in the first half of 2013 compared to the first half of 2012. The results were adversely affected by reduced demand for engine overhaul services resulting from the early retirement of Boeing 747-400 aircraft belonging to Cathay Pacific. However, the effect of this was mostly offset by stronger than expected demand for overhaul of Trent 700 engines.

Singapore Aero Engine Services Pte. Limited ("SAESL"), in which HAESL has a 20% interest, recorded a 10.2% increase in profit in the first half of 2013 over the first half of 2012. This reflected more work being done per engine.

HAESL's performance in the second half of 2013 is expected to be affected by a continued reduction in demand for engine overhaul services resulting from the early retirement of Boeing 747-400 aircraft belonging to Cathay Pacific.

OTHER PRINCIPAL SUBSIDIARY AND JOINT VENTURE COMPANIES

The results of the Group's other subsidiary and joint venture companies during the period were broadly in line with expectations. The results of the Group's joint ventures in Mainland China improved from the same period last year. Output was higher, with better utilisation of facilities.

In the first half of 2013, TEXL (owned 75.01% by HAECO and 10% by TAECO) completed 17 quick turn repairs on GE90 aircraft engines, (12 of them being heavy quick turn repairs, on which more work is done than on other quick turn repairs) and five performance restorations on such engines, a 69.2% increase from the first half of 2012. Revenue increased by 139.4% from the first half of 2012, reflecting higher output and more work being done per engine. TEXL's losses were reduced, as utilisation of its facilities improved. The company does turbine shroud and vane replacements, low pressure turbine disc and blade replacements and turbine centre frame modifications. In the first half of 2013, it started to do new work for Etihad Airways and GE Capital Aviation Services.

TALSCO (owned 56.285% by HAECO and 10% by TAECO) reported a loss in the first half of 2013 compared with a profit in the first half of 2012. It has undertaken no overhaul work since the fire at its premises in November 2012. Clean-up and recovery work continue. Additional provisions of HK$19 million for impairment and other losses, net of expected insurance receivables, have been made on the basis of revised estimates of rebuilding and repair costs and of the corresponding insurance receivables. Work preparatory to reconstruction of TALSCO's premises is being done, with a view to partial resumption of operations in the early part of 2014.

HXITM (owned 70% by HAECO and 30% by Cathay Pacific) provides inventory technical management services to Cathay Pacific and other airlines. In the first half of 2013, HXITM performed such services for Airbus A300, A310, A320, A330 and A340 aircraft and Boeing 747 and 777 aircraft. The total number of aircraft for which services were provided is 213. It made a small profit in the first half of 2013.

SHAECO (100% owned) performed well in first half of 2013. However, following the expiry of the contract with a major customer in May 2013, SHAECO is expected to record a loss for the year overall. SHAECO will look for new business and, in an effort to mitigate the effect of the loss of the customer, will reduce costs.

STA (owned 60% by HAECO and 15% by TAECO following the acquisition of a 26% interest of the company) provides line maintenance in Shanghai. An average of 39 aircraft movements per day were handled in the first half of 2013. Profits were satisfactory.

Taikoo Spirit (owned 41.8% by HAECO and 10.76% by TAECO) achieved significant revenue growth which resulted in a reduced loss in the first half of 2013.

Except at TALSCO, output is expected to increase at the Mainland China joint ventures in the second half of 2013, but they are likely to continue to be affected by under-utilisation of facilities.

STAFF

The Group's headcount at the dates shown was as follows:

	30th June 2013	31st December 2012	**Change**
HAECO	**5,217**	5,070	**+2.9%**
TAECO	**5,060**	5,144	**-1.6%**
HAESL	**1,107**	1,165	**-5.0%**
Other subsidiary and joint venture companies in which HAECO and TAECO own more than 20%	**2,683**	2,776	**-3.4%**
	14,067	14,155	**-0.6%**

Financial Review

TURNOVER

Turnover increased by 11.1% to HK$3,222 million, with a 11.0% decrease in HAECO's turnover in Hong Kong, a 19.6% increase in that of TAECO and a 111.9% increase in that of other subsidiaries (principally reflecting an increase in the turnover of TEXL).

	Six months ended 30th June		
	2013 HK$M	2012 HK$M	**Change**
HAECO	**1,571**	1,765	**-11.0%**
TAECO	**975**	815	**+19.6%**
Others	**676**	319	**+111.9%**
	3,222	2,899	**+11.1%**

OPERATING EXPENSES

Operating expenses increased by 18.5% to HK$3,074 million. The increase in staff remuneration and benefits was mainly due to higher wage costs in Mainland China and Hong Kong. The significant increase in the cost of direct material and job expenses principally reflected more work being done by TEXL.

	Six months ended 30th June		
	2013 HK$M	2012 HK$M (Restated)	**Change**
Staff remuneration and benefits	**1,470**	1,283	**+14.6%**
Cost of direct material and job expenses	**1,108**	783	**+41.5%**
Depreciation, amortisation and impairment	**211**	234	**-9.8%**
Other operating expenses	**285**	294	**-3.1%**
	3,074	2,594	**+18.5%**

PROFIT

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

	HK$M	
2012 interim profit (restated)	**455**	
Turnover		
HAECO	**(194)**	The decrease principally reflects a 17.5% decrease in airframe maintenance manhours sold (due to labour shortages) partly offset by a 2.2% increase in line maintenance aircraft movements.
TAECO	**160**	The increase principally reflects new revenue from cabin modification work as well as a 10.2% increase in airframe maintenance manhours.
Others	**357**	The increase principally reflects more engine repair work at TEXL.
Staff remuneration and benefits	**(187)**	The increase reflects wage increases.
Cost of direct material and job expenses	**(325)**	The increase mainly reflects an increase in business volume at TEXL.
Depreciation, amortisation and impairment	**23**	The decrease was due to the impairment of rotable spares last year and the reversal of some impairment losses of TALSCO assets which are to be repaired later this year.
Other operating expenses	**9**	
Share of after-tax results of joint venture companies	**7**	The increase principally reflects a higher profit from SAESL.
Taxation	**33**	The decrease reflects a lower profit at HAECO and deferred tax movements at TAECO.
Other items	**32**	This includes the unrealised mark-to-market gains on forward foreign exchange contracts at TAECO against a loss last year.
Non-controlling interests	**(11)**	The increase reflects a higher profit at TAECO.
2013 interim profit	**359**	

FINANCIAL POSITION

- Total assets at 30th June 2013 were HK$11,222 million. During the period, additions to fixed assets were HK$267 million. Included in this amount was HK$70 million spent on plant, machinery and tools and HK$182 million spent on rotable and repairable spares for inventory technical management.

- At 30th June 2013, the Group's net borrowings were HK$433 million (representing an increase of HK$172 million from their amount at 31st December 2012), with a gearing ratio of 6.3%. Net borrowings consisted of short-term loans of HK$432 million and long-term loans of HK$1,775 million, net of bank balances and short-term deposits of HK$1,774 million. Borrowings are denominated in US dollars, HK dollars and Renminbi, and are fully repayable by 2017. The increase in net borrowings largely reflects capital expenditure in the first half of the year.

- The maturity of long-term loans at 30th June 2013 was as follows:

	Group	
	30th June 2013 HK$M	31st December 2012 HK$M
Bank loans:		
Repayable within one year	**360**	103
Repayable between one and two years	**52**	359
Repayable between two and five years	**1,363**	1,063
	1,775	1,525

- Committed loan facilities amounted to HK$3,972 million at 30th June 2013, of which HK$2,300 million were undrawn. There were uncommitted facilities of HK$1,612 million, of which HK$1,063 million were undrawn. Sources of funds at 30th June 2013 comprised:

	Available HK$M	Drawn HK$M	Undrawn expiring within one year HK$M	Undrawn expiring beyond one year HK$M
Committed facilities				
– Loans	3,972	1,672	850	1,450
Uncommitted facilities				
– Loans and overdraft	1,612	549	1,063	–
Total	**5,584**	**2,221**	**1,913**	**1,450**

- TAECO mitigates its exposure to changes in the exchange rate of the US dollar against Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 30th June 2013, TAECO had sold forward a total of US$115 million to fund part of its Renminbi requirements for 2013 to 2015. The weighted average exchange rate applicable to these forward sales was RMB6.34 to US$1. Due to the strengthening of Renminbi against the US dollar, unrealised mark-to-market gains of HK$18 million on forward foreign exchange contracts arose in the first half of 2013.

- The Group's borrowings were on a floating rate basis at 30th June 2013. The principal amount of borrowings at 30th June 2013 which gives rise to exposure to interest rate changes (after interest rate swaps) was HK$2,058 million. The Group's weighted average effective interest rate per annum at 30th June 2013 was 1.86%.

Report on Review of Condensed Interim Accounts

TO THE BOARD OF DIRECTORS OF HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed interim accounts set out on pages 11 to 30, which comprises the consolidated statement of financial position of Hong Kong Aircraft Engineering Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30th June 2013 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six-month period then ended and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim accounts to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company are responsible for the preparation and presentation of the interim accounts in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on the interim accounts based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim accounts are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 13th August 2013

Consolidated Statement of Profit or Loss

for the six months ended 30th June 2013

	Note	(Unaudited) Six months ended 30th June 2013 HK$M	(Unaudited) Six months ended 30th June 2012 HK$M (Restated)	(Audited) Year ended 31st December 2012 HK$M (Restated)
Turnover	*4*	**3,222**	2,899	5,830
Operating expenses:				
Staff remuneration and benefits		**(1,470)**	(1,283)	(2,611)
Cost of direct material and job expenses		**(1,108)**	(783)	(1,706)
Depreciation, amortisation and impairment		**(211)**	(234)	(490)
Insurance and utilities		**(73)**	(64)	(86)
Operating lease rentals – land and buildings		**(98)**	(99)	(172)
Repairs and maintenance		**(51)**	(61)	(142)
Other		**(63)**	(70)	(181)
		(3,074)	(2,594)	(5,388)
Other net gains/(losses)		**26**	(19)	(8)
Operating profit	*4*	**174**	286	434
Finance income	*5*	**8**	9	18
Finance charges	*5*	**(27)**	(15)	(35)
Net operating profit		**155**	280	417
Share of after-tax results of joint venture companies	*10*	**278**	271	560
Profit before taxation		**433**	551	977
Taxation	*6*	**(32)**	(65)	(122)
Profit for the period		**401**	486	855
Profit attributable to:				
The Company's shareholders		**359**	455	822
Non-controlling interests		**42**	31	33
		401	486	855
Dividends				
First interim – declared/paid		**133**	146	146
Second interim – paid		**–**	–	333
		133	146	479
		HK$	HK$	HK$
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	*7*	**2.16**	2.74	4.94

	2013 First interim HK$	2012 First interim HK$	2012 Second interim HK$	2012 Total HK$
Dividends per share	**0.80**	0.88	2.00	2.88

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2013

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2013 HK$M	2012 HK$M (Restated)	2012 HK$M (Restated)
Profit for the period	**401**	486	855
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Defined benefit retirement schemes			
– actuarial gains recognised	**–**	–	35
– deferred tax	**–**	–	(6)
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of joint venture companies	**(2)**	1	6
Net translation differences on foreign operations	**42**	(30)	18
Other comprehensive income for the period, net of tax	**40**	(29)	53
Total comprehensive income for the period	**441**	457	908
Total comprehensive income attributable to:			
The Company's shareholders	**382**	437	866
Non-controlling interests	**59**	20	42
	441	457	908

Consolidated Statement of Financial Position

at 30th June 2013

	Note	(Unaudited) 30th June 2013 HK$M	(Audited) 31st December 2012 HK$M (Restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*8*	**4,892**	4,793
Leasehold land and land use rights	*8*	**361**	362
Intangible assets	*9*	**518**	528
Joint venture companies	*10*	**1,181**	1,156
Derivative financial instruments	*12*	**6**	2
Deferred tax assets	*15*	**68**	46
Retirement benefit assets	*11*	**113**	138
Long-term prepayment		**12**	12
		7,151	7,037
Current assets			
Stocks of aircraft parts		**306**	295
Work in progress		**140**	213
Trade and other receivables	*13*	**1,842**	1,497
Derivative financial instruments	*12*	**9**	3
Cash and cash equivalents		**1,754**	1,418
Short-term deposits		**20**	5
		4,071	3,431
Current liabilities			
Trade and other payables	*14*	**1,572**	1,415
Derivative financial instruments	*12*	**–**	1
Taxation payable		**57**	58
Short-term loans		**432**	159
Long-term loans due within one year		**360**	103
		2,421	1,736
Net current assets		**1,650**	1,695
Total assets less current liabilities		**8,801**	8,732
Non-current liabilities			
Long-term loans		**1,415**	1,422
Receipt in advance		**43**	48
Deferred income		**11**	10
Advance from a related party		**89**	90
Put option over a non-controlling interest in a subsidiary company	*2(b)*	**72**	72
Deferred tax liabilities	*15*	**278**	275
Derivative financial instruments	*12*	**1**	8
		1,909	1,925
NET ASSETS		**6,892**	6,807
EQUITY			
Share capital	*16*	**166**	166
Reserves	*17*	**5,554**	5,505
Equity attributable to the Company's shareholders		**5,720**	5,671
Non-controlling interests		**1,172**	1,136
TOTAL EQUITY		**6,892**	6,807

Consolidated Statement of Cash Flows

for the six months ended 30th June 2013

	(Unaudited) Six months ended 30th June 2013 HK$M	(Unaudited) Six months ended 30th June 2012 HK$M	(Audited) Year ended 31st December 2012 HK$M
Operating activities			
Cash generated from operations	**222**	450	792
Interest paid	**(22)**	(15)	(31)
Interest received	**8**	9	17
Tax paid	**(53)**	(49)	(94)
Net cash generated from operating activities	**155**	395	684
Investing activities			
Purchase of property, plant and equipment	**(285)**	(199)	(364)
Proceeds from disposals of property, plant and equipment	**–**	3	3
Purchase of shares in joint venture companies	**–**	(4)	(19)
Loans to a joint venture company	**–**	(4)	(33)
Repayment of loans by joint venture companies	**29**	1	20
Dividends received from joint venture companies	**254**	225	502
Net cash inflow on purchase of shares in a subsidiary company	**11**	–	–
Net decrease in deposits maturing after more than three months	**5**	12	20
Net cash generated from investing activities	**14**	34	129
Net cash inflow before financing activities	**169**	429	813
Financing activities			
Proceeds from loans	**661**	428	745
Repayment of loans	**(138)**	(196)	(534)
Capital contribution from non-controlling interests	**–**	85	85
Advance from a non-controlling interest	**–**	–	90
Repayment of advance from a non-controlling interest	**–**	(24)	(24)
Dividends paid to the Company's shareholders	**(333)**	(882)	(1,028)
Dividends paid to non-controlling interests	**(31)**	(38)	(44)
Net cash generated from/(used in) financing activities	**159**	(627)	(710)
Increase/(decrease) in cash and cash equivalents	**328**	(198)	103
Cash and cash equivalents at 1st January	**1,418**	1,320	1,320
Currency adjustment	**8**	(7)	(5)
Cash and cash equivalents at end of the period	**1,754**	1,115	1,418

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2013

	Attributable to the Company's shareholders					
	Share capital HK$M	**Revenue reserve HK$M**	**Other reserves HK$M**	**Total HK$M**	**Non-controlling interests HK$M**	**Total equity HK$M**
At 1st January 2013						
as originally stated	**166**	**5,514**	**177**	**5,857**	**1,136**	**6,993**
adjustment on adoption of amendments to HKAS 19	**–**	**(186)**	**–**	**(186)**	**–**	**(186)**
as restated	**166**	**5,328**	**177**	**5,671**	**1,136**	**6,807**
Profit for the period	**–**	**359**	**–**	**359**	**42**	**401**
Other comprehensive income	**–**	**–**	**23**	**23**	**17**	**40**
Total comprehensive income for the period	**–**	**359**	**23**	**382**	**59**	**441**
Dividends paid	**–**	**(333)**	**–**	**(333)**	**(31)**	**(364)**
Change in composition of the Group	**–**	**–**	**–**	**–**	**8**	**8**
At 30th June 2013 (unaudited)	**166**	**5,354**	**200**	**5,720**	**1,172**	**6,892**

	Attributable to the Company's shareholders					
	Share capital HK$M	Revenue reserve HK$M	Other reserves HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2012						
as originally stated	166	5,744	165	6,075	1,015	7,090
adjustment on adoption of amendments to HKAS 19	–	(164)	–	(164)	–	(164)
as restated	166	5,580	165	5,911	1,015	6,926
Profit for the period, as restated	–	455	–	455	31	486
Other comprehensive income	–	–	(18)	(18)	(11)	(29)
Total comprehensive income for the period, as restated	–	455	(18)	437	20	457
Dividends paid	–	(882)	–	(882)	(6)	(888)
Change in composition of the Group	–	(6)	–	(6)	90	84
At 30th June 2012 (unaudited)	166	5,147	147	5,460	1,119	6,579

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) The unaudited condensed interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial information are consistent with those described in the 2012 annual accounts except for those noted in 1(b) below.

(b) The following relevant new and revised standards and amendments were required to be adopted by the Group effective from 1st January 2013:

		Effective for accounting periods beginning on or after
HKFRSs (Amendment)	Annual Improvements to HKFRSs 2009-2011 Cycle	1st January 2013
HKAS 1 (Amendment)	Presentation of Financial Statements	1st July 2012
HKAS 19 (revised 2011)	Employee Benefits	1st January 2013
HKAS 28 (revised 2011)	Investments in Associates and Joint Ventures	1st January 2013
HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1st January 2013
HKFRS 10	Consolidated Financial Statements	1st January 2013
HKFRS 11	Joint Arrangements	1st January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1st January 2013
HKFRS 13	Fair Value Measurements	1st January 2013
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1st January 2013

The improvements to Hong Kong Financial Reporting Standards ("HKFRSs") 2009 to 2011 cycles consist of six amendments to five existing standards, including an amendment to HKAS 34 "Interim Financial Reporting". The amendment aligns the disclosure requirements for segment assets and liabilities in interim financial reports with those in HKFRS 8 "Operating Segments". It has had no impact on the Group's disclosure.

The amendment to HKAS 1 focuses on improving the presentation of components of other comprehensive income items. It requires items presented in other comprehensive income to be grouped on the basis of whether they are potentially reclassifiable to the profit or loss account subsequently or not. The Group's presentation of other comprehensive income in these interim accounts has been modified accordingly.

HKAS 19 was amended in 2011. The impact on the Group's defined benefit plans is as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. In addition, it removes the accounting policy choice that previously permitted only the recognition of actuarial gains and losses outside the 10% "corridor" to be recognised in the Statement of Profit or Loss. Instead all such remeasurements are required to be recognised in other comprehensive income, when they occur. The above change is required to be applied retrospectively.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(b) As a result of the adoption of amendments to HKAS 19, the Group has changed its accounting policy with respect to defined benefit plans. This change in accounting policy has been applied retrospectively by restating the balances at 31st December 2012, and the results for the six months ended 30th June 2012 and year ended 31st December 2012 as follows:

	As previously reported HK$M	Effect of adopting amendments to HKAS 19 HK$M	As restated HK$M
Consolidated Statement of Financial Position as at 31st December 2012			
Joint venture companies	1,171	(15)	1,156
Retirement benefit assets	343	(205)	138
Deferred tax liabilities	309	(34)	275
Reserves	5,691	(186)	5,505
Consolidated Statement of Profit or Loss for the six months ended 30th June 2012			
Staff remuneration and benefits	1,253	30	1,283
Share of after-tax results of joint venture companies	273	(2)	271
Taxation	70	(5)	65
Profit attributable to the Company's shareholders	482	(27)	455
	HK$	HK$	HK$
Earnings per share (basic and diluted)	2.90	(0.16)	2.74
	HK$M	HK$M	HK$M
Consolidated Statement of Profit or Loss for the year ended 31st December 2012			
Staff remuneration and benefits	2,551	60	2,611
Share of after-tax results of joint venture companies	564	(4)	560
Taxation	132	(10)	122
Profit attributable to the Company's shareholders	876	(54)	822
	HK$	HK$	HK$
Earnings per share (basic and diluted)	5.27	(0.33)	4.94
	HK$M	HK$M	HK$M
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six months ended 30th June 2012			
Total comprehensive income attributable to the Company's shareholders	464	(27)	437
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31st December 2012			
Total comprehensive income attributable to the Company's shareholders	888	(22)	866

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(b) HKFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard has had no significant impact on the results and financial position of the Group.

HKFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use in all relevant HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how fair value should be measured where its use is already required or permitted by other standards in HKFRSs. It also provides new disclosure requirements. The adoption of HKFRS 13 only affects disclosures on fair value measurements of financial assets and financial liabilities in the Group's interim accounts.

The adoption of the other revisions, amendments and new standards has had no effect on the Group's interim financial information.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Insurance receivable arisen from the fire at TALSCO

Since the fire broke out at TALSCO's premises in November 2012, the directors have been reviewing the carrying value of damaged property, plant and equipment and the impairment provisions. Provisions have also been made for certain costs, which meet the recognition criteria under HKAS 37, including the clean-up costs of the site, the costs of replacing the assets of TALSCO customers that were irreparably damaged by the incident, and certain consequential losses of customers.

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

In the first half of 2013, additional provisions of HK$19 million for impairment and other losses, net of expected insurance receivables, have been made on the basis of revised estimates of rebuilding and repair costs and of the corresponding insurance receivables.

(b) Estimate of fair value of put option

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

3. FINANCIAL RISK MANAGEMENT

(a) The Group is exposed to a number of financial risks through the normal course of business. In the view of the Board, the principal financial risks identified under the heading "Financial risk management" set out on pages 57 to 61 of the Annual Report for the year ended 31st December 2012, remain applicable for the six months ended 30th June 2013, and are expected to continue to be the same for the remaining six months of the current financial year.

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

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

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

	Group		
	Level 2 HK$M	Level 3 HK$M	Total carrying amount HK$M
Assets			
At 30th June 2013			
Derivatives not qualifying as hedges	**15**	**–**	**15**
Total	**15**	**–**	**15**
At 31st December 2012			
Derivatives not qualifying as hedges	5	–	5
Total	5	–	5
Liabilities			
At 30th June 2013			
Derivatives not qualifying as hedges	**1**	**–**	**1**
Put option over a non-controlling interest in a subsidiary company	**–**	**72**	**72**
Total	**1**	**72**	**73**
At 31st December 2012			
Derivatives not qualifying as hedges	9	–	9
Put option over a non-controlling interest in a subsidiary company	–	72	72
Total	9	72	81

3. FINANCIAL RISK MANAGEMENT (continued)

(b) The following table presents the change in level 3 instrument:

	Group Total HK$M
Put option over a non-controlling interest in a subsidiary company	
At 30th June 2013 and 1st January 2013	**72**

The fair value of the put option over a non-controlling interest in a subsidiary company in Level 3 is determined using discounted cash flow valuation technique. The significant unobservable inputs used in the fair value measurement are the terminal growth rate into perpetuity and discount rate.

Information about fair value measurements using significant unobservable inputs (Level 3):

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation HK$M
Put option over a non-controlling interest in a subsidiary company	Terminal growth rate into perpetuity	2%	The higher the future growth rates, the higher the fair value	+/-1%	44/(32)
	Discount rate	8%	The higher the discount rate, the lower the fair value	+/-1%	(45)/65

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values. This team reports to Director Finance. Discussions of valuation processes and results are held between Director Finance and the valuation team at least once every six months, in line with the Group's reporting dates.

4. SEGMENT INFORMATION

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

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

				HAESL				
	HAECO HK$M	TAECO HK$M	TEXL HK$M	At 100% HK$M	Adjustments to reflect the Group's equity share HK$M	Other segments – subsidiary companies HK$M	Inter-segment elimination/ unallocated adjustments HK$M	Total HK$M
Six months ended 30th June 2013								
External turnover	1,571	975	552	5,761	(5,761)	124	–	3,222
Inter-segment turnover	36	3	1	2	(2)	32	(72)	–
Total turnover	1,607	978	553	5,763	(5,763)	156	(72)	3,222
Operating profit/(loss)	67	123	(9)	537	(537)	(7)	–	174
Finance income	2	6	–	–	–	–	–	8
Finance charges	(10)	(3)	(8)	(4)	4	(6)	–	(27)
Share of after-tax results of joint venture companies	–	–	–	121	134	–	23	278
Profit/(loss) before taxation	59	126	(17)	654	(399)	(13)	23	433
Taxation (charge)/credit	(15)	(14)	1	(87)	87	–	(4)	(32)
Profit/(loss) for the period	44	112	(16)	567	(312)	(13)	19	401
Depreciation and amortisation	83	77	33	46	(46)	29	–	222
Provision for impairment of stock and property, plant and equipment	3	3	–	–	–	4	–	10
Reversal of impairment of property, plant and equipment	–	–	–	–	–	(15)	–	(15)

4. SEGMENT INFORMATION (continued)

	HAECO HK$M (Restated)	TAECO HK$M	TEXL HK$M	HAESL At 100% HK$M (Restated)	HAESL Adjustments to reflect the Group's equity share HK$M (Restated)	Other segments – subsidiary companies HK$M	Inter-segment elimination/ unallocated adjustments HK$M	Total HK$M (Restated)
Six months ended 30th June 2012								
External turnover	1,765	815	231	5,725	(5,725)	88	–	2,899
Inter-segment turnover	20	1	–	2	(2)	8	(29)	–
Total turnover	1,785	816	231	5,727	(5,727)	96	(29)	2,899
Operating profit/(loss)	215	104	(38)	547	(547)	5	–	286
Finance income	3	6	2	–	–	–	(2)	9
Finance charges	(4)	(2)	(7)	(2)	2	(4)	2	(15)
Share of after-tax results of joint venture companies	–	–	–	108	146	–	17	271
Profit/(loss) before taxation	214	108	(43)	653	(399)	1	17	551
Taxation (charge)/credit	(36)	(27)	1	(89)	89	(1)	(2)	(65)
Profit/(loss) for the period	178	81	(42)	564	(310)	–	15	486
Depreciation and amortisation	97	75	33	42	(42)	16	–	221
Provision for impairment of stock and property, plant and equipment	16	2	–	–	–	–	–	18

	HAECO HK$M (Restated)	TAECO HK$M	TEXL HK$M	HAESL At 100% HK$M (Restated)	HAESL Adjustments to reflect the Group's equity share HK$M (Restated)	Other segments – subsidiary companies HK$M	Inter-segment elimination/ unallocated adjustments HK$M	Total HK$M (Restated)
Year ended 31st December 2012								
External turnover	3,421	1,668	567	12,114	(12,114)	174	–	5,830
Inter-segment turnover	53	28	–	4	(4)	16	(97)	–
Total turnover	3,474	1,696	567	12,118	(12,118)	190	(97)	5,830
Operating profit/(loss)	343	161	(64)	1,159	(1,159)	(6)	–	434
Finance income	5	13	2	–	–	–	(2)	18
Finance charges	(11)	(5)	(14)	(4)	4	(7)	2	(35)
Share of after-tax results of joint venture companies	–	–	–	208	319	–	33	560
Profit/(loss) before taxation	337	169	(76)	1,363	(836)	(13)	33	977
Taxation (charge)/credit	(58)	(45)	1	(191)	191	(16)	(4)	(122)
Profit/(loss) for the year	279	124	(75)	1,172	(645)	(29)	29	855
Depreciation and amortisation	190	153	66	88	(88)	34	–	443
Provision for impairment of stock and property, plant and equipment	19	–	–	–	–	45	–	64
Reversal of impairment of property, plant and equipment	(11)	–	–	–	–	–	–	(11)

4. SEGMENT INFORMATION (continued)

	HAECO HK$M	TAECO HK$M	TEXL HK$M	HAESL At 100% HK$M	HAESL Adjustments to reflect the Group's equity share HK$M	Other segments – subsidiary companies HK$M	Inter-segment elimination/ unallocated adjustments HK$M	Total HK$M
At 30th June 2013								
Total segment assets	**4,356**	**2,998**	**1,476**	**3,561**	**(3,561)**	**1,707**	**(496)**	**10,041**
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	**33**	**28**	**22**	**15**	**(15)**	**184**	**–**	**267**
Total segment liabilities	**1,552**	**649**	**874**	**1,899**	**(1,899)**	**1,714**	**(459)**	**4,330**

	HAECO HK$M (Restated)	TAECO HK$M	TEXL HK$M	HAESL At 100% HK$M (Restated)	HAESL Adjustments to reflect the Group's equity share HK$M (Restated)	Other segments – subsidiary companies HK$M	Inter-segment elimination/ unallocated adjustments HK$M	Total HK$M (Restated)
At 31st December 2012								
Total segment assets	4,243	3,022	1,514	3,587	(3,587)	940	(407)	9,312
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	141	83	41	88	(88)	347	(275)	337
Total segment liabilities	1,428	744	896	1,972	(1,972)	967	(374)	3,661

The goodwill which was solely arisen from the acquisition of TEXL has been accounted for under TEXL rather than an unallocated asset.

The put option over a non-controlling interest in a subsidiary company has been accounted for under other segments rather than an unallocated liability.

	30th June 2013 HK$M	31st December 2012 HK$M (Restated)
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	**10,041**	9,312
Unallocated: investment in joint venture companies	**1,181**	1,156
Total assets	**11,222**	10,468

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

4. SEGMENT INFORMATION (continued)

HAESL has been determined as a reportable operating segment, although it is a joint venture company. The Executive Directors of the Board review the full statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss and statement of financial position.

5. FINANCE INCOME AND FINANCE CHARGES

	Six months ended 30th June		Year ended 31st December
	2013 HK$M	2012 HK$M	2012 HK$M
Finance income:			
Short-term deposits and bank balances	**6**	6	13
Loans due from joint venture companies	**2**	3	5
Finance charges:			
Bank loans	**(27)**	(15)	(35)
	(19)	(6)	(17)

6. TAXATION

	Six months ended 30th June		Year ended 31st December
	2013 HK$M	2012 HK$M (Restated)	2012 HK$M (Restated)
Current taxation:			
Hong Kong profits tax	**11**	46	97
Overseas taxation	**35**	34	27
Under-provisions in prior years	**6**	2	10
	52	82	134
Deferred taxation:			
Increase in deferred tax assets	**(21)**	(7)	(34)
Increase/(decrease) in deferred tax liabilities	**1**	(10)	22
	32	65	122

6. TAXATION (continued)

Hong Kong profits tax is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of joint venture companies' tax charges for the six months ended 30th June 2013 of HK$46 million (30th June 2012: HK$47 million, as restated; year ended 31st December 2012: HK$98 million, as restated) is included in the share of after-tax results of joint venture companies shown in the consolidated statement of profit or loss.

7. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2013 of HK$359 million (30th June 2012: HK$455 million, as restated; 31st December 2012: HK$822 million, as restated) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2012: 166,324,850; 31st December 2012: 166,324,850).

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

	Property, plant and equipment HK$M	Leasehold land and land use rights HK$M
Net book value:		
At 1st January 2013	4,793	362
Translation differences	27	4
Additions and transfers	262	–
Depreciation and amortisation	(201)	(5)
Provision for impairment losses	(4)	–
Reversal of impairment losses	15	–
At 30th June 2013	**4,892**	**361**

9. INTANGIBLE ASSETS

	Goodwill HK$M	Technical licences HK$M	Others HK$M	Total HK$M
Net book value:				
At 1st January 2013	31	464	33	528
Translation differences	–	–	1	1
Additions and transfers	–	–	5	5
Amortisation	–	(13)	(3)	(16)
At 30th June 2013	**31**	**451**	**36**	**518**

10. JOINT VENTURE COMPANIES

The Group's share of the results, assets and liabilities of the joint venture companies are as follows:

	HAESL			Others			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2013 HK$M	2012 HK$M (Restated)	2012 HK$M (Restated)	**2013 HK$M**	2012 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M (Restated)	2012 HK$M (Restated)
Turnover	**2,593**	2,577	5,453	**262**	257	500	**2,855**	2,834	5,953
Operating expenses	**(2,351)**	(2,330)	(4,932)	**(230)**	(229)	(449)	**(2,581)**	(2,559)	(5,381)
Operating profit	**242**	247	521	**32**	28	51	**274**	275	572
Net finance charges	**(2)**	(1)	(2)	**(2)**	(5)	(6)	**(4)**	(6)	(8)
Share of after-tax results of joint venture companies	**54**	49	94	**–**	–	–	**54**	49	94
Profit before taxation	**294**	295	613	**30**	23	45	**324**	318	658
Taxation	**(39)**	(41)	(86)	**(7)**	(6)	(12)	**(46)**	(47)	(98)
Profit for the period	**255**	254	527	**23**	17	33	**278**	271	560
Dividends paid and/or declared	**233**	212	474	**6**	9	30	**239**	221	504
Net assets employed:									
Non-current assets	**556**	563	572	**284**	344	288	**840**	907	860
Current assets	**1,163**	1,198	1,159	**289**	289	276	**1,452**	1,487	1,435
	1,719	1,761	1,731	**573**	633	564	**2,292**	2,394	2,295
Current liabilities	**(816)**	(762)	(715)	**(248)**	(261)	(184)	**(1,064)**	(1,023)	(899)
Non-current liabilities	**(39)**	(172)	(172)	**(9)**	(69)	(70)	**(48)**	(241)	(242)
	864	827	844	**316**	303	310	**1,180**	1,130	1,154
Financed by:									
Shareholders' equity	**864**	827	844	**316**	303	310	**1,180**	1,130	1,154

11. RETIREMENT BENEFITS

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

	Local Scheme HK$M	**Expatriate Scheme HK$M**	**Total HK$M**
At 1st January 2013			
as originally stated	**284**	**59**	**343**
adjustment on adoption of amendments to HKAS 19	**(205)**	**–**	**(205)**
as restated	**79**	**59**	**138**
Decrease due to:			
Charged to statement of profit or loss	**(45)**	**–**	**(45)**
Contributions paid	**20**	**–**	**20**
At 30th June 2013	**54**	**59**	**113**

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	30th June 2013 HK$M	31st December 2012 HK$M	**30th June 2013 HK$M**	31st December 2012 HK$M
Forward foreign exchange contracts				
– not qualifying as hedges	**15**	5	**1**	9
Total	**15**	5	**1**	9
Less: non-current portion				
Forward foreign exchange contracts				
– not qualifying as hedges	**6**	2	**1**	8
	6	2	**1**	8
Current portion	**9**	3	**–**	1

13. TRADE AND OTHER RECEIVABLES

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.

	30th June 2013 HK$M	31st December 2012 HK$M
Trade receivables	**504**	466
Less: Provision for impairment of receivables	**(58)**	(21)
	446	445
Amounts due from joint venture companies	**93**	137
Amounts due from related parties	**674**	431
Other receivables and prepayments	**629**	484
	1,842	1,497
The analysis of the age of trade receivables (based on the invoice date) is as follows:		
Under three months	**352**	411
Between three and six months	**58**	17
Over six months	**94**	38
	504	466

14. TRADE AND OTHER PAYABLES

	30th June 2013 HK$M	31st December 2012 HK$M
Trade payables	**135**	116
Amounts due to joint venture companies	**14**	14
Amounts due to related parties	**33**	25
Accrued capital expenditure	**56**	74
Accruals	**1,162**	958
Other payables	**172**	228
	1,572	1,415
The analysis of the age of trade payables is as follows:		
Under three months	**131**	113
Between three and six months	**2**	1
Over six months	**2**	2
	135	116

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

15. DEFERRED TAXATION

The movement on the net deferred tax liabilities account is as follows:

	HK$M
At 1st January 2013	
as originally stated	**263**
adjustment on adoption of amendments to HKAS 19	**(34)**
as restated	**229**
Translation differences	**1**
Credited to statement of profit or loss	**(20)**
At 30th June 2013	**210**
Represented by:	
Deferred tax assets	**(68)**
Deferred tax liabilities	**278**
	210

16. SHARE CAPITAL

	Company			
	30th June 2013		31st December 2012	
	Number of shares	HK$M	Number of shares	HK$M
Authorised:				
Ordinary shares of HK$1.00 each	**210,000,000**	**210**	210,000,000	210
Issued and fully paid:				
Ordinary shares of HK$1.00 each	**166,324,850**	**166**	166,324,850	166

During the period under review, the Company did not purchase, sell or redeem any of its shares.

17. RESERVES

	Revenue reserve HK$M	Capital redemption reserve HK$M	Exchange translation reserve HK$M	Cash flow hedge reserve HK$M	Total HK$M
At 1st January 2013					
as originally stated	**5,514**	**19**	**157**	**1**	**5,691**
adjustment on adoption of amendments to HKAS 19	**(186)**	**–**	**–**	**–**	**(186)**
as restated	**5,328**	**19**	**157**	**1**	**5,505**
Total comprehensive income for the period	**359**	**–**	**25**	**(2)**	**382**
2012 second interim dividend	**(333)**	**–**	**–**	**–**	**(333)**
At 30th June 2013	**5,354**	**19**	**182**	**(1)**	**5,554**

18. CAPITAL COMMITMENTS

	30th June 2013 HK$M	31st December 2012 HK$M
Outstanding capital commitments at the end of the period:		
Contracted for	**151**	90
Authorised by Directors but not contracted for	**927**	392
	1,078	482

19. FINANCIAL GUARANTEES

The Group has guaranteed loans of joint venture companies. At 30th June 2013, the face values of liabilities guaranteed were HK$67 million (31st December 2012: HK$68 million).

20. BUSINESS COMBINATION

On 29th January 2013, the Company completed the acquisition of 26% shareholdings in STA for a consideration of HK$8 million. The transaction enabled the Group to acquire majority control of 75% of STA and as a result to consolidate STA's financial results and cash flows. There was no net gain or loss arising from this acquisition.

21. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

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

		Joint venture companies			Immediate holding company			Other related parties			Total		
		Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	Note	**2013 HK$M**	2012 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M	2012 HK$M
Revenue from provision of services:													
Cathay Pacific Airways Limited Group	*a*	**–**	–	–	**–**	–	–	**1,341**	1,206	2,447	**1,341**	1,206	2,447
Other revenue	*b*	**18**	36	54	**–**	–	–	**–**	–	–	**18**	36	54
		18	36	54	**–**	–	–	**1,341**	1,206	2,447	**1,359**	1,242	2,501
Purchases:													
Costs payable to John Swire & Sons (H.K.) Limited under services agreement													
– Service fees payable during the period	*a*	**–**	–	–	**–**	–	–	**10**	13	25	**10**	13	25
– Expenses reimbursed at cost	*a*	**–**	–	–	**–**	–	–	**34**	31	59	**34**	31	59
Subtotal	*a*	**–**	–	–	**–**	–	–	**44**	44	84	**44**	44	84
– Share of administrative services		**–**	–	–	**–**	–	–	**1**	1	4	**1**	1	4
Total		**–**	–	–	**–**	–	–	**45**	45	88	**45**	45	88
Cost payable to Cathay Pacific Airways Limited under secondment agreement	*a*	**–**	–	–	**–**	–	–	**5**	–	1	**5**	–	1
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		**–**	–	–	**–**	–	–	**3**	2	6	**3**	2	6
Risk management service		**–**	–	–	**1**	1	3	**–**	–	–	**1**	1	3
Spares purchases from Cathay Pacific Airways Limited Group		**–**	–	–	**–**	–	–	**6**	14	27	**6**	14	27
Other purchases	*c*	**9**	4	22	**–**	–	–	**15**	11	17	**24**	15	39
		9	4	22	**1**	1	3	**74**	72	139	**84**	77	164

Notes:

a. These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.

b. Other revenue from joint venture companies mainly came from the provision to HAESL of engine component repairs on a commercial arm's length basis.

c. Purchases from joint venture companies comprised mainly aircraft component overhaul charges by Taikoo Spirit.

d. Amounts due from and due to joint venture companies and other related parties at 30th June 2013 are disclosed in note 13 and note 14 to the accounts.

Supplementary Information

CORPORATE GOVERNANCE

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

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

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

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

DIRECTORS' PARTICULARS

A change in the particulars of the Directors is set out as follows:

1. P.P.W. Tse retired as a Non-Executive Director of CLP Holdings Limited with effect from 30th April 2013.

DIRECTORS' INTERESTS

At 30th June 2013, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Hong Kong Aircraft Engineering Company Limited and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited, Swire Pacific Limited and Swire Properties Limited:

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

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	*Note*
John Swire & Sons Limited						
Ordinary Shares of £1						
M.B. Swire	3,140,523	–	19,222,920	22,363,443	22.36	*2*
8% Cum. Preference Shares of £1						
M.B. Swire	846,476	–	5,655,441	6,501,917	21.67	*2*

	Capacity				
	Beneficial interest				
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)
Swire Pacific Limited					
'A' shares					
P.A. Johansen	31,500	–	–	31,500	0.0035
C.D. Pratt	41,000	–	–	41,000	0.0045
'B' shares					
P.A. Johansen	200,000	–	–	200,000	0.0067
C.D. Pratt	100,000	–	–	100,000	0.0033

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	*Note*
Swire Properties Limited						
Ordinary Shares						
P.A. Johansen	50,050	–	–	50,050	0.00086	
C.D. Pratt	4,200	–	–	4,200	0.00007	
M.B. Swire	–	–	138,855	138,855	0.00237	*2*

Notes:

1. *The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.*
2. *M.B. Swire is a trustee of trusts which held 138,855 shares in Swire Properties Limited and 10,766,080 ordinary shares and 3,121,716 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have any beneficial interest in those shares.*

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

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 30th June 2013, the Company had been notified of the following interests in the Company's shares:

	Number of shares	Percentage of issued capital (%)	Type of interest	*Notes*
1. Swire Pacific Limited	124,723,637	74.99	Beneficial owner	*1*
2. John Swire & Sons Limited	124,723,637	74.99	Attributable interest	*2*
3. Aberdeen Asset Management plc	10,037,200	6.03	Attributable interest	*3*

Notes:

As at 30th June 2013:

1. *Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner.*
2. *John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 124,723,637 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's interests in shares of Swire Pacific Limited representing approximately 45.80% of the issued share capital and approximately 59.74% of the voting rights.*
3. *Aberdeen Asset Management plc was interested in the shares in its capacity as investment manager. These included shares in which wholly-owned controlled corporations of Aberdeen Asset Management plc were interested.*

Financial Calendar and Information for Investors

FINANCIAL CALENDAR 2013

Interim Report available to shareholders	28th August 2013
Shares traded ex-dividend	28th August 2013
Register of members closed for first interim dividend entitlement	30th August 2013
Payment of 2013 first interim dividend	17th September 2013
Annual results announcement	March 2014
Annual General Meeting	May 2014

REGISTERED OFFICE

Hong Kong Aircraft Engineering Company Limited
33rd Floor, One Pacific Place
88 Queensway
Hong Kong

REGISTRARS

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Hong Kong
Website: www.computershare.com

DEPOSITARY

The Bank of New York Mellon
P.O. Box 358516
Pittsburgh, PA 15252-8516
USA
Website: www.bnymellon.com\shareowner
E-mail: shrrelations@bnymellon.com
Tel: Calls within USA – toll free: 1-888-BNY-ADRS
International callers: 1-201-680-6825

STOCK CODES

Hong Kong Stock Exchange	00044
ADR	HKAEY
CUSIP Reference Number	438569105

AUDITORS

PricewaterhouseCoopers

PUBLIC AFFAIRS

E-mail: corpcomm@haeco.com
Tel: (852) 2767-6639
Fax: (852) 2260-6998
Website: www.haeco.com