HAECO

Hong Kong Aircraft Engineering Company Limited

Annual Report 2013

Stock Code: 00044

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

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

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

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

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

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

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

One Stop Shop Services

Airframe Maintenance

The HAECO Group provides airframe maintenance and repair services in Hong Kong and Mainland China. In addition to providing conventional maintenance and repair services, the HAECO Group converts passenger aircraft to freighters and modifies and completes aircraft cabins.

Line Maintenance

HAECO provides line maintenance services to over 100 airlines at Hong Kong International Airport. The services comprise transit and service checks, technical log certification and aircraft release, technical defect clearance and cabin cleaning. The HAECO Group also provides line maintenance services at airports in Xiamen, Beijing, Shanghai, Chengdu, Jinan, Tianjin, Chongqing and Nanjing in Mainland China and at the airport in Singapore.

Engine Overhaul

The HAECO Group provides repair and overhaul services for Rolls-Royce engines in Asia through Hong Kong Aero Engine Services Limited ("HAESL") in Hong Kong and Singapore Aero Engine Services Pte. Limited ("SAESL") in Singapore. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") operates a GE engine overhaul facility in Xiamen, Mainland China.

Component and Avionics Overhaul

The HAECO Group overhauls aircraft components and avionics in Hong Kong and Xiamen. It also repairs and overhauls landing gears in Xiamen and thrust reversers in Jinjiang. In cooperation with original equipment manufacturers, the HAECO Group repairs and overhauls aircraft tyres, wheels and brakes in Hong Kong, Xiamen and Jinjiang.

Inventory Technical Management and Fleet Technical Management

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

Financial Highlights

		2013	2012 (Restated)	Change
Results				
Turnover	*HK$ Million*	**7,387**	5,830	+26.7%
Net operating profit	*HK$ Million*	**228**	417	-45.3%
Share of after-tax results of joint venture companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	*HK$ Million*	**465**	527	-11.8%
– Other joint venture companies	*HK$ Million*	**36**	33	+9.1%
Profit attributable to the Company's shareholders	*HK$ Million*	**625**	822	-24.0%
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	*HK$*	**3.76**	4.94	-24.0%
Total dividends per share	*HK$*	**2.10**	2.88	-27.1%
Financial Position				
Net borrowings	*HK$ Million*	**193**	261	-26.1%
Gearing ratio	*%*	**2.6**	3.8	-1.2%pt
Total equity	*HK$ Million*	**7,326**	6,807	+7.6%
Equity attributable to the Company's shareholders per share	*HK$*	**36.66**	34.10	+7.5%
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	**505**	684	-26.2%
Net cash inflow before financing activities	*HK$ Million*	**522**	813	-35.8%

Note:
The average number of shares in issue is 166,324,850 in 2013 (2012: 166,324,850).
Additional financial information about the Group's joint venture companies is presented on pages 81 to 84.

Contents

Chairman's Letter

The HAECO Group reported an attributable profit of HK$625 million in 2013, 24.0% lower than that in 2012. Earnings per share decreased by 24.0% to HK$3.76. Turnover increased by 26.7% to HK$7,387 million.

The Directors have declared a second interim dividend of HK$1.30 per share. Together with the first interim dividend of HK$0.80 per share paid on 17th September 2013, this results in total dividends for 2013 of HK$2.10 per share. Total dividends for 2012 were HK$2.88 per share. The second interim dividend, which totals HK$216 million (2012: HK$333 million), will be paid on 29th April 2014 to shareholders on the register at the close of business on 28th March 2014.

Demand for line maintenance services in Hong Kong remained stable. 2.8% more aircraft movements were handled in 2013 than in 2012. Airframe maintenance and component overhaul services in Hong Kong were adversely affected by shortages of skilled and semi-skilled labour, which resulted in a significant reduction in capacity. 13.5% fewer manhours were sold by HAECO for airframe maintenance in 2013 than in 2012. The results of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") improved in 2013, with higher demand for its airframe maintenance services. The performance of Hong Kong Aero Engine Services Limited ("HAESL") was badly affected by the early retirement of Boeing 747-400 aircraft and its engine output and profit contribution fell in 2013. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") did well in 2013, recording its first full-year profit, with higher engine output. The operations of Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO") continued to be affected by the fire which had occurred in November 2012; the company resumed operations in December 2013, but no landing gear overhaul work was done for customers during the year. The overall results of the Group's other joint ventures in Mainland China improved in 2013.

The Group continued to invest in facility expansion and technical capabilities in order to improve and widen the range of aircraft engineering services provided to customers. Total capital expenditure for 2013 was HK$560 million, with a further HK$4,276 million (including expenditure on the acquisition referred to in the next paragraph) committed at the end of the year.

In February 2014, HAECO completed the acquisition of 100% of the shares in TIMCO Aviation Services, Inc. (a company based in the United States) ("TIMCO") for a total consideration of US$371.8 million (HK$2,887 million). The principal activity of TIMCO is the provision of a broad spectrum of aircraft technical services including airframe, line and engine maintenance, cabin modification services and interior products manufacturing (including seats). The business and operations of TIMCO fit well strategically with the Group's existing operations, and there is limited overlap between their respective businesses.

The Group's operations in Hong Kong continue to suffer from shortages of skilled and semi-skilled labour and, as a result, airframe maintenance capacity in 2014 is expected to remain low. We continue to improve remuneration, career development opportunities and training. The rate of attrition of staff has slowed, but it takes a long time to train new staff to reach required standards. Demand for line maintenance services in Hong Kong is expected to remain stable. TAECO's business will be adversely affected by increasing staff costs, although demand for its airframe maintenance services is expected to remain stable. HAESL's 2014 performance will continue to be adversely affected by early retirement of Boeing 747-400 aircraft. It will also be adversely affected by a reduction in the required frequency of scheduled maintenance on Trent 700 engines, which power Airbus A330 aircraft. TEXL is expected to perform well in 2014. A new component overhaul workshop has started to operate in Xiamen. This should be able to do some of the component and avionics overhaul work which cannot be done in Hong Kong because of labour shortages. Considerable management efforts are being devoted to the integration of TIMCO with the HAECO Group.

The municipal government in Xiamen has announced its intention to develop a new airport at Xiang'an. The timing of the development of the new airport and its implications for TAECO's, and other HAECO Group, operations at the existing airport are not yet clear. Management intends to maintain regular communication with the local authority and to develop plans for continued operations in Xiamen.

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

Christopher Pratt
Chairman
Hong Kong, 11th March 2014

HAECO is trusted to deliver world-class solutions for the existing and emerging needs of our customers in the aviation industry. As your dependable partner, our determination to deliver service innovation, technical expertise and operational excellence will take you **above and beyond**.

Our Core Values

- Customer Centric
- Operational Excellence
- Service Innovation

Operational Excellence

We put safety first, and strive to set best-in-class quality standards within the maintenance, repair and overhaul industry.

Customer Centric

HAECO stands for a level of care and attention to details when it comes to working with customers and servicing their aircraft.

Service Innovation

We operate in a responsible and innovative way to continuously improve issues relating to people, performance and the environment.

Airframe Maintenance

Hong Kong
Chengdu
Jinan
Xiamen

- In June 2013, HAECO was ranked second in the "Top 10 Airframe MROs" by Aviation Week & Space Technology.
- During the year, HAECO obtained approval to provide maintenance services on Boeing 747-8 aircraft from the European Aviation Safety Agency ("EASA") and Hong Kong Civil Aviation Department ("HKCAD").
- In February 2013, HAECO completed a major cabin modification programme for United Airlines, when the last of 14 Boeing 767-300 aircraft to be modified were redelivered. In April 2013, HAECO celebrated a decade of working with United Airlines. During that period, HAECO has received United Airlines aircraft into its hangars 290 times, including for C checks and modifications.

- During 2013, TAECO obtained the following approvals in relation to airframe maintenance.

Approval authority	Aircraft type
Civil Aviation Authority of the Philippines ("CAAP")	Boeing 777
Maldives Civil Aviation Authority	Boeing 757 and 767
Civil Aviation Authority of China ("CAAC")	Airbus A330, Boeing 737NG and 777
EASA	Airbus A318
Department of Civil Aviation, Thailand ("TDCA")	Boeing 737 Classic and Boeing 767

- In October 2013, TAECO's cabin completion centre obtained its first Airbus A319 VIP cabin supplemental type certificate ("STC") from HKCAD and expects to obtain a validated STC from EASA. TAECO's Panasonic in-flight entertainment workshop was approved by the United States Federal Aviation Administration ("FAA") in January 2013, by EASA in February 2013 and by CAAC in August 2013.

- In January 2013, TAECO completed its first regional cabin retrofit project on a Boeing 777-300 aircraft for Cathay Pacific. This is part of a programme involving 54 aircraft from Cathay Pacific and Dragonair which is scheduled to be completed by the end of 2014. In November 2013, TAECO completed the conversion of a Boeing 757-200PCF aircraft for Air China Cargo.

Airframe Maintenance (continued)

- TAECO has been appointed by Virgin Atlantic Airways as one of the heavy maintenance service providers for its Boeing 747-400 fleet, by Philippine Airlines as an airframe maintenance service provider for its Boeing 747-400 fleet and Boeing 777-300 fleet and by Air Astana as one of the heavy maintenance service providers for its Boeing 757, Boeing 767 and Airbus A320 aircraft. In August 2013, TAECO entered into an agreement with Condor, a Frankfurt-based airline, to provide maintenance and cabin modification for its Boeing 767-300 fleet.
- In May 2013, TAECO completed its 150th redelivery for Japan Airlines since 1997 and its first winglet modification for the airline. In June 2013, TAECO celebrated its own 20th anniversary and completed its 200th aircraft redelivery for All Nippon Airways.
- The Group completed its first cabin reconfiguration as an integrator in 2013. HAECO, TAECO and HAECO Cabin Solutions, LLC ("HCS") together designed, installed and certified a cabin interior for Air Astana.
- TAECO plans to equip a bay in one of its hangars with tooling and equipment necessary to conduct heavy and light maintenance checks on Airbus A380 aircraft.
- In July 2013, Taikoo (Shandong) Aircraft Engineering Company Limited ("STAECO") and Capital Jet Limited ("Capital Jet"), the only authorised fixed base operator ("FBO") at Beijing Capital International Airport, entered into an agreement in relation to FBO maintenance services at that airport. STAECO will provide Capital Jet with technical expertise in scheduled checks and maintenance, modifications, engineering management, parts supply, support for aircraft on ground and type training.

- In 2013, STAECO obtained approval from TDCA to fabricate parts and from CAAC to undertake passenger to freighter conversion on Boeing 737CL aircraft and to issue certificates as an examination centre for civil aircraft maintenance licences.
- In October 2013, STAECO completed the passenger to freighter conversion of a Boeing 737 aircraft for SF Airlines. This was the 100th freighter conversion performed by the HAECO Group. In April 2013, STAECO completed its 100th C check for All Nippon Airways.
- STAECO has started to maintain Bombardier Challenger 850 business jets for Fortuna Jet, which is based in Macau. Embraer, the Brazilian aircraft manufacturer, has named STAECO as an authorised service centre in Mainland China. STAECO can provide airframe and line maintenance services for Embraer E-Jet aircraft.
- HAECO's United States joint venture, HCS, enables the Group to provide FAA STCs for completion and modification projects. This company can also provide project management and engineering services in support of cabin reconfiguration programmes.
- From August 2013, the Group's shareholding in Sichuan Aircraft Maintenance Engineering Company Limited ("SMECO"), formerly known as Taikoo Sichuan Aircraft Engineering Services Company Limited was diluted to 12.93%, following an additional capital injection by the other shareholders of SMECO.

Line Maintenance

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

- In 2013, Taiwan's EVA Air presented an "Excellent Performance Award 2012" to the HAECO line maintenance team.
- In March 2013, HAECO started to provide full line maintenance support for the Air Seychelles fleet of Airbus A330-200 passenger aircraft.
- TAECO obtained the following approvals to do line maintenance work in Mainland China.

Approval authority	Aircraft Type and Location
Department of Civil Aviation of Mauritius	Airbus A330 and A340, Shanghai Pudong station
United Arab Emirates General Civil Aviation Authority	Airbus A340-600, Shanghai Pudong station
Civil Aviation Authority of Singapore ("CAAS")	Boeing 777, Tianjin station
EASA	Airbus A380, Beijing station
TDCA	Airbus A320 and A330, Chongqing station

- STAECO has been named as one of eight Gold line maintenance agencies by Air China.
- In January 2013, HAECO completed the acquisition of an additional 26% shareholding in Shanghai Taikoo Aircraft Engineering Services Company Limited ("STA"), increasing the Group's equity interest to 75%. STA obtained approvals from CAAC, CAAS and from the civil aviation authorities of Japan and the Republic of Korea.

Engine Overhaul

Hong Kong

Xiamen

Singapore

- HAESL obtained an approval from the civil aviation authority of Australia to repair and overhaul RB211-524 engines and associated components (so enabling it to continue to do work for airlines based in Australia) and from Rolls-Royce to repair turbine discs on Trent 700 and 800 engines, compressor and turbine stub shafts on Trent 700 and 800 engines, and fan cases on Trent 700 and 800 engines.
- HAESL expects to develop the capability to repair Trent XWB engines from 2016.

- Nine of HAESL's cells for performing work on aircraft engine components are rated gold under the Rolls-Royce's Centre of Excellence programme. There are only 20 such cells at MRO facilities worldwide.
- In December 2013, TEXL celebrated the completion of work on its 100th engine. During 2013, the company obtained a C7 component repair rating from EASA, which enables it to undertake more component repair work on GE90 engine components. FAA approval of TEXL full overhaul capabilities on high pressure compressors, low pressure compressors and low pressure turbines enables it to provide a more comprehensive overhaul service for GE90 engines. The corresponding approvals from EASA are expected to be obtained in 2014.
- Three new customers had engines overhauled by TEXL in 2013, Etihad Airways, GE Capital Aviation Services and China Cargo Airlines. TEXL continued to invest in plant, equipment and tooling in order to expand its engine overhaul capacity and to develop its ability to repair components for GE90 engines.

Component and Avionics Overhaul

Hong Kong

Jinan

Jinjiang

Xiamen

- In October 2013, HAECO established a wholly owned subsidiary, HAECO Component Overhaul (Xiamen) Limited ("CAO China"), in Xiamen in order to provide component and avionics overhaul and repair services. CAO China is expected to start operating in April 2014 and to incur capital expenditure of approximately HK$400 million over the next three years. CAO China should be able to do some of the component and avionics overhaul work which cannot be done in Hong Kong because of labour shortages.

- In 2013, Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited ("Dunlop Taikoo") entered into long term contracts with customers in Japan and New Zealand, obtained approvals to perform work on five additional parts from EASA, the civil aviation authority of Australia and TDCA and obtained approvals to do work on ten additional parts from the civil aviation authority of Indonesia.
- In 2013, the operations of TALSCO continued to be affected by the fire which had occurred in November 2012. TALSCO resumed work in December 2013 on its own landing gear. No landing gear overhaul work was done for customers in 2013.
- In 2013, Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("Taikoo Spirit") extended its nacelle repair capabilities to engines on Airbus A320, A330 and A340 aircraft and on Boeing 737NG, 747, 767 and 777 aircraft. Three nacelle original equipment manufacturers designated Taikoo Spirit as an authorised repair centre for the Asia Pacific region. Taikoo Spirit is now able to replace Trent 800 engine inner walls on Boeing 777 aircraft at customers' premises.
- In 2013, Goodrich Asia-Pacific Limited ("GAP") became capable of doing work on wheels and brakes for Boeing 787 and Embraer regional jet aircraft.

Inventory Technical Management and Fleet Technical Management

Hong Kong

Jinan

Singapore

- In 2013, HAECO ITM Limited ("HXITM") provided inventory technical management services for Airbus A300, A320, A330, A340 aircraft and Boeing 747 and 777 aircraft. Cebu Pacific Air appointed HXITM to provide services for up to eight Airbus A330-300 aircraft. The Boeing Company appointed HXITM to provide services for two Boeing 747-8 aircraft and Hongkong Jet appointed HXITM to provide services for two Airbus A319 aircraft.

Review of Operations

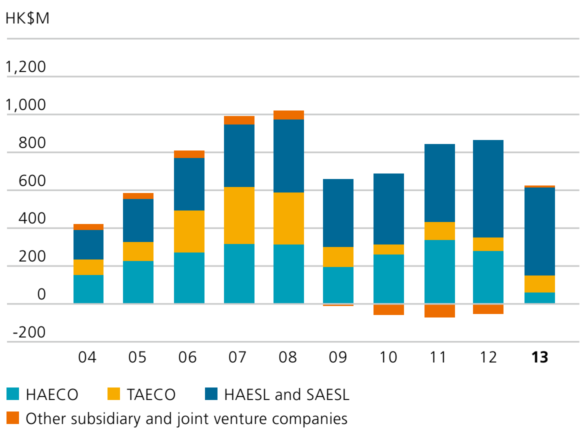
In 2013, HAECO and TAECO sold 6.24 million manhours for airframe maintenance, a 2.2% reduction from 2012. HAECO handled more flights for line maintenance services in Hong Kong, reflecting growth in service demand for passenger flights. HAESL repaired and overhauled 193 engines, 12.3% fewer than in 2012.

The profit attributable to the Company's shareholders comprises:

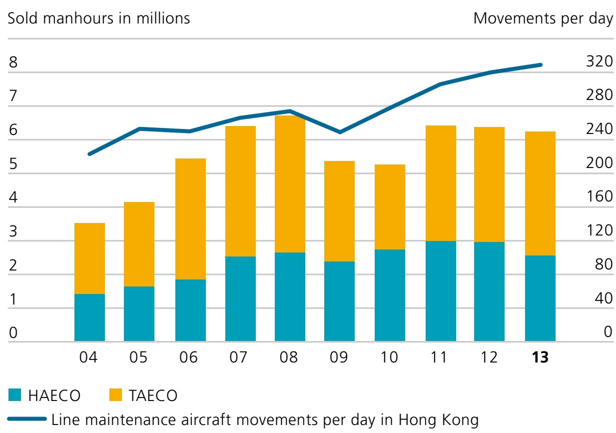
	2013	2012	Change
	HK$M	HK$M (Restated)	
HAECO	**60**	279	-78.5%
TAECO	**90**	70	+28.6%
Share of:			
HAESL and SAESL	**465**	527	-11.8%
Other subsidiary and joint venture companies	**10**	(54)	+118.5%
	625	822	-24.0%

	2013	2012	Change
Airframe maintenance sold manhours (per year in millions)			
HAECO	**2.56**	2.96	-13.5%
TAECO	**3.68**	3.42	+7.6%
	6.24	6.38	-2.2%
Line maintenance aircraft movements (per day)			
HAECO	**329**	320	+2.8%
TAECO and STA	**86**	77	+11.7%
Engine output (per year)			
HAESL	**193**	220	-12.3%
TEXL – performance restoration	**19**	6	+216.7%
TEXL – quick turn repair	**40**	18	+122.2%

Attributable Profits by Company



Airframe Maintenance Sold Manhours and Line Maintenance Aircraft Movements



HAECO

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

Airframe Maintenance

HAECO performs scheduled maintenance checks, modifications and overhaul work on a wide variety of aircraft types. It competes on turnaround time and quality of workmanship with other maintenance, repair and overhaul facilities worldwide. Manhours sold decreased from 2.96 million in 2012 to 2.56 million in 2013. Capacity was reduced as a result of labour shortages. Approximately 76.6% of airframe maintenance work was for airlines based outside Hong Kong. Airframe maintenance capacity in 2014 is expected to be similar to that in 2013. The rate of attrition of staff has slowed, but it takes a long time to train new staff to reach required standards.

Line Maintenance

HAECO undertakes technical and non-technical line maintenance for airlines operating at HKIA. There was an increase in aircraft movements in 2013 as the demand for passenger services grew. However, non-technical line maintenance services were affected by high staff turnover. The average number of aircraft movements handled by HAECO was 329 per day in 2013, a 2.8% increase from 2012. Demand for line maintenance in 2014 is expected to be in line with the growth in aircraft movements at HKIA.

Component and Avionics Overhaul

HAECO overhauls components and avionics in 7,000 square metres of workshop space at Tseung Kwan O in Hong Kong. Manhours sold were 0.265 million compared with 0.273 million in 2012. This reflected delays in developing capabilities and capacity constraints caused by labour shortages. In 2014, CAO China should be able to undertake some of the component and avionics overhaul work which cannot be performed in Hong Kong because of labour shortages.

HAECO employed 5,492 staff at the end of 2013, 8.3% more than at the end of 2012. The increase reflects newly recruited trainees.

TAECO

TAECO's businesses comprise airframe maintenance, line maintenance, passenger to freighter conversions, parts manufacturing, training and cabin reconfigurations. TAECO currently has 11 bays for airframe maintenance checks and one bay for VIP cabin completions. The company's performance in 2013 benefited from an increase in workload, partially offset by higher labour costs, particularly for skilled workers.

Airframe Maintenance

Demand for airframe maintenance was strong in the first half of 2013 but slowed in the second half. In 2013, TAECO was appointed by Virgin Atlantic Airways as an airframe maintenance service provider for its Boeing 747-400 fleet and signed a two-year contract with Condor for C Checks and cabin upgrades on its Boeing 767 fleet. Demand for cabin modification was strong in 2013.

No passenger to freighter conversions of wide-body aircraft were performed in 2013. Demand for passenger to freighter conversions of narrow-body aircraft was stable. Two such aircraft were converted in 2013. The outlook for further conversions of narrow-body aircraft remains stable.

Manhours sold in 2013 were 3.68 million, 7.6% more than in 2012.

Line Maintenance

TAECO provides line maintenance services in Xiamen, Beijing, Tianjin and Chongqing. It handled an average of 43 aircraft movements per day in 2013.

Cabin Completions

Manufacturing and technical training revenues were higher than expected in 2013, growing by 57.1% and 17.7% respectively from 2012. VIP cabin completion revenue increased strongly.

TAECO employed 5,091 staff at the end of 2013, 1.0% fewer than at the end of 2012.

HAESL

HAESL (45% owned by HAECO) repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. HAESL recorded a 15.5% decrease in profit in 2013 compared to 2012, reflecting a reduction in the number of engines overhauled. Engine output was 193 in 2013 compared with 220 in 2012. This resulted from the early retirement of Boeing 747-400 aircraft. Until Trent XWB engines start to generate revenue in 2016, HAESL's financial performance is expected to be adversely affected by a continued reduction in demand for engine overhaul services.

The Group's share of the after-tax profit of HAESL, including that derived from HAESL's interest in Singapore Aero Engine Services Pte. Limited ("SAESL"), reduced by 11.8% in 2013 to HK$465 million.

Other Principal Subsidiary and Joint Venture Companies

The net profit attributable to shareholders derived from other principal subsidiary and joint venture companies comprises:

	2013	2012	Change
	HK$M	HK$M	
TEXL	**39**	(60)	+165.0%
TALSCO	**(27)**	(21)	-28.6%
Other subsidiary and joint venture companies	**(2)**	27	-107.4%
	10	(54)	+118.5%

- TEXL (owned 75.01% by HAECO and 10% by TAECO) has an engine overhaul facility in Xiamen. It has a service agreement with General Electric under which it performs quick turn repairs and performance restorations for GE90-110B and GE90-115B engines. During 2013, TEXL completed 40 quick turn repairs (33 of them being heavy or medium repairs) and 19 performance restorations, compared with 18 light quick turn repairs and six performance restorations in 2012. With the increase in engine output, TEXL became profitable in 2013. During the year, TEXL performed repair work on high pressure compressor shroud and vane replacements, low pressure turbine disc and blade replacements and turbine centre frame modifications. Demand for engine overhaul work is expected to remain firm.

- TALSCO (owned 63.80% by HAECO and 10% by TAECO) overhauls landing gear in Xiamen. In 2013, the operations of TALSCO continued to be affected by the fire which had occurred in November 2012. TALSCO resumed work in December 2013 on its own landing gear. No landing gear overhaul work was done for customers in 2013. Additional provisions of HK$35 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.

- Singapore HAECO Pte. Limited ("SHAECO") (100% owned) undertakes line maintenance in Singapore. Following the expiry of the contract with a major customer in May 2013, SHAECO recorded a loss for the year. Operating costs and headcount were reduced. The company continues to look for new business opportunities.
- Dunlop Taikoo (owned 28% by HAECO and 9% by TAECO) sells and retreads aircraft tyres at Jinjiang in Fujian Province in Mainland China. It generated a small profit in 2013, reflecting an increase in the number of new tyres sold and the number of tyres retreaded.
- GAP (49% owned by HAECO) refurbishes carbon brakes and wheel hubs in Hong Kong. In 2013, the increase in sales volume did not generate sufficient revenue to cover increased staff costs and rental costs. As a result profits fell.
- Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited (35% owned by TAECO) overhauls fuel control systems and pumps in Xiamen. Profits decreased in 2013 mainly due to an increase in the cost of parts.
- Honeywell TAECO Aerospace (Xiamen) Company Limited (owned 25% by HAECO and 10% by TAECO) overhauls auxiliary power units and other rotable spares. A significant reduction in profit was recorded in 2013 due to higher repair costs.
- STAECO (owned 30% by HAECO and 10% by TAECO) undertakes airframe maintenance, passenger to freighter conversions and line maintenance at Jinan in Shandong Province in Mainland China for Boeing 737 and other narrow-body aircraft. Profits increased in 2013 as a result of higher demand for airframe maintenance.
- Taikoo Spirit (owned 41.8% by HAECO and 10.76% by TAECO) repairs and overhauls composite structures at Jinjiang in Fujian Province in Mainland China. Higher sales volume and revenues resulted in a reduced loss in 2013.
- HXITM (owned 70% by HAECO) provides inventory technical management services to Cathay Pacific and other airlines. The total number of aircraft for which services were provided in 2013 is 231. A profit was recorded in 2013. HXITM intends to continue to build up its scale and customer base.
- STA (owned 60% by HAECO and 15% by TAECO) provides line maintenance in Shanghai and Nanjing. Although an average of 43 aircraft movements per day were handled in 2013 compared with 28 in 2012, STA recorded a lower profit in 2013 due to higher staff costs. Attributable profit increased as a result of an increased shareholding.
- HCS (owned 90.01% by HAECO) provides certification, engineering design and programme management for cabin completion and reconfiguration projects in the United States. HCS recorded a profit in its first year of operation, doing work on aircraft for Air Astana.
- In October 2013, HAECO USA Holdings, Inc., a wholly-owned subsidiary company of HAECO conditionally agreed to acquire a 100% equity interest in TIMCO and costs incurred in 2013 were reflected in its results for the year. In February 2014, the acquisition was completed for a total consideration of US$371.8 million (HK$2,887 million) and a repayment of bank and external loans of TIMCO of US$26.8 million (HK$208 million). The principal activity of TIMCO is the provision of a broad spectrum of aircraft technical services in the United States, including airframe, line and engine maintenance, cabin modification services and interior products manufacturing (including seats). The business and operations of TIMCO fit well strategically with the Group's existing operations, and there is limited overlap between their respective businesses. Together, they will be able to offer enhanced and expanded aircraft maintenance and cabin modification services to a wider range of customers based in Asia and North America. Additionally, the enlarged business will be able to accelerate the development of technical capabilities while catering to an expanded range of products, including for narrow-body aircraft and regional aircraft.

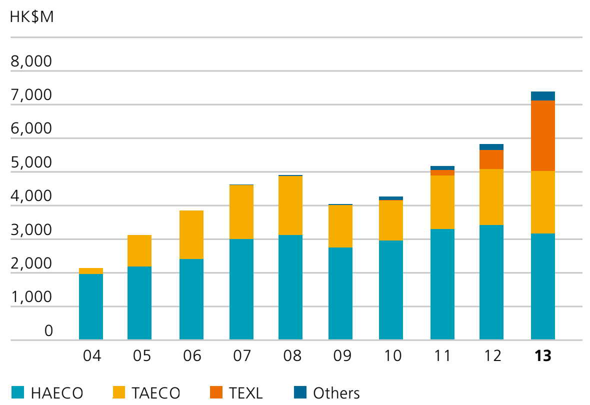
Financial Review

Turnover

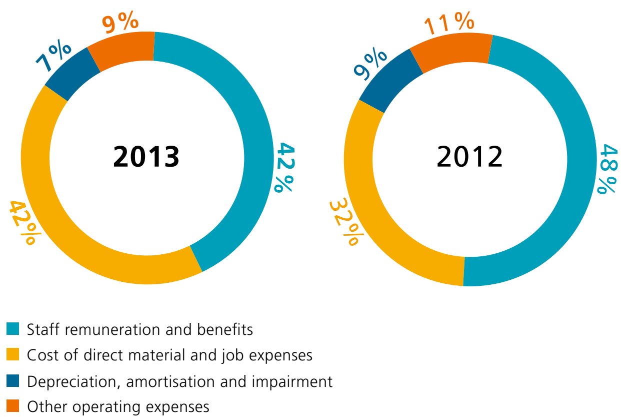
Turnover in 2013 increased by 26.7% to HK$7,387 million, principally reflecting a 269.5% increase in TEXL's turnover and a 11.5% increase in TAECO's turnover, partially offset by a 7.4% reduction in HAECO's turnover.

	2013	2012	Change
	HK$M	HK$M	
HAECO	**3,169**	3,421	-7.4%
TAECO	**1,860**	1,668	+11.5%
TEXL	**2,095**	567	+269.5%
Others	**263**	174	+51.1%
	7,387	5,830	+26.7%

Turnover



Operating Expenses



Operating Expenses

Operating expenses increased by 33.8% to HK$7,208 million.

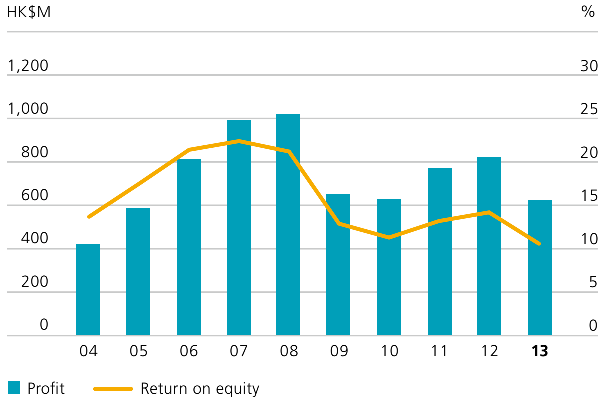
	2013	2012	Change
	HK$M	HK$M (Restated)	
Staff remuneration and benefits	**3,053**	2,611	+16.9%
Cost of direct material and job expenses	**3,039**	1,706	+78.1%
Depreciation, amortisation and impairment	**488**	490	-0.4%
Other operating expenses	**628**	581	+8.1%
	7,208	5,388	+33.8%

Profit

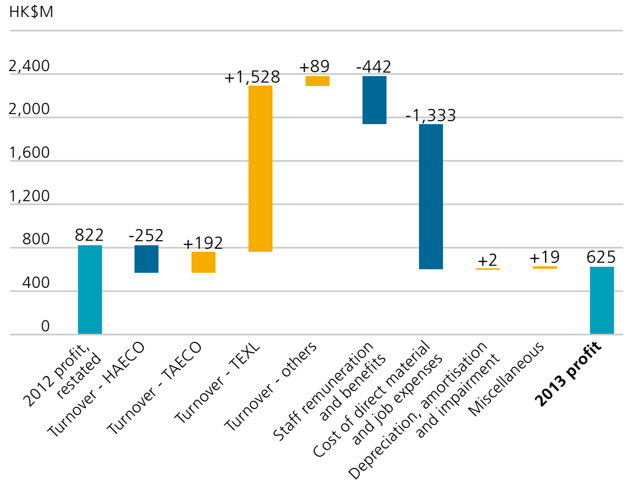
The change in profit attributable to the Company's shareholders can be analysed as follows:

	HK$M	
2012 profit, as restated	822	
Turnover		
HAECO	(252)	The decrease reflects a 13.5% reduction in airframe maintenance manhours sold partly offset by a 2.8% increase in line maintenance aircraft movements. The reduction in airframe maintenance manhours sold reflects shortages of labour.
TAECO	192	The increase principally reflects new revenue from cabin modification work as well as a 7.6% increase in airframe maintenance manhours.
TEXL	1,528	The growth resulted from a substantial increase in engine repair work.
Others	89	The increase principally reflects full year's operation of HXITM in 2013.
Staff remuneration and benefits	(442)	The increase reflects higher salaries in Mainland China and Hong Kong.
Cost of direct material and job expenses	(1,333)	The increase reflects an increase in business volumes, predominantly at TEXL.
Depreciation, amortisation and impairment	2	The decrease was mainly due to reduced impairment losses on assets of TALSCO.
Other operating expenses	(47)	The increase principally reflects the costs associated with the acquisition of TIMCO.
Share of after-tax results of joint venture companies	(59)	The decrease principally reflects a lower profit from HAESL.
Taxation	89	The decrease reflects a lower profit at HAECO and deferred tax movements at TAECO.
Other items	74	These include the government subsidies and mark to market foreign exchange gains at TAECO (there having been corresponding exchange losses at TAECO in 2012).
Non-controlling interests	(38)	The increase reflects higher profits at TEXL and TAECO.
2013 profit	**625**	

Profit Attributable to the Company's Shareholders



Movement of Profit Attributable to the Company's Shareholders



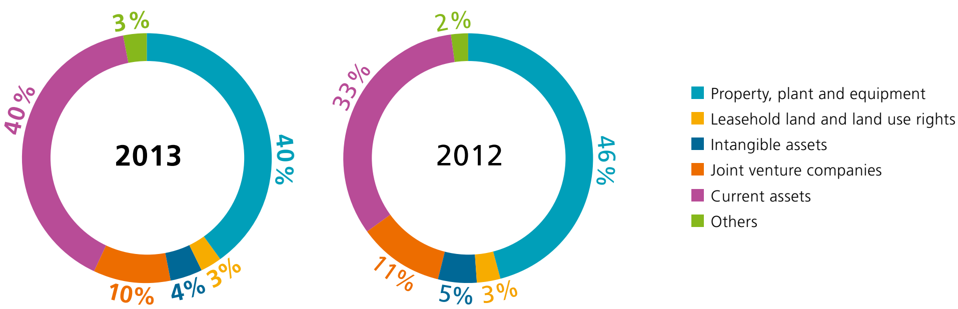
Assets

Total assets as at 31st December 2013 were HK$12,306 million. During the year, additions to fixed assets were HK$523 million. Included in this amount was HK$116 million spent on plant, machinery and tools and HK$344 million spent on rotable and repairable spares for inventory technical management.

Borrowings and Financing

At 31st December 2013, the Group had net borrowings of HK$193 million (2012: HK$261 million) and a gearing ratio of 2.6%. Net borrowings consisted of short-term loans of HK$533 million and long-term loans of HK$2,024 million, net of bank balances and short-term deposits of HK$2,364 million. Borrowings are denominated in US dollars, HK dollars and Renminbi, and are fully repayable by 2017. The decrease in net borrowings mainly reflects net cash generated from operating activities during the year. Committed loan facilities amounted to HK$6,999 million at 31st December 2013, of which HK$5,077 million were undrawn. In addition, there were uncommitted facilities of HK$2,005 million at the same date, of which HK$1,354 million were undrawn.

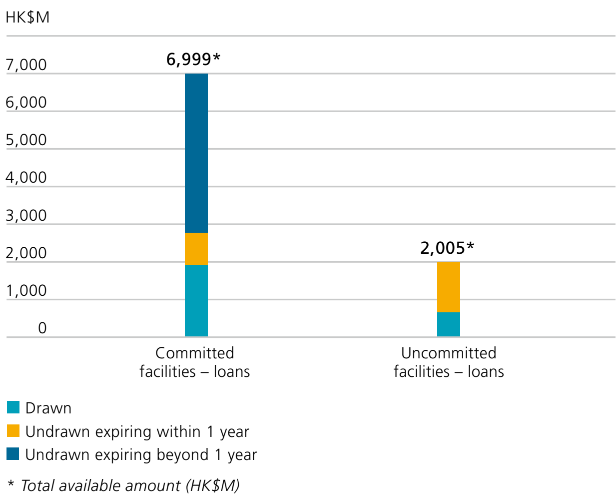
Total Assets



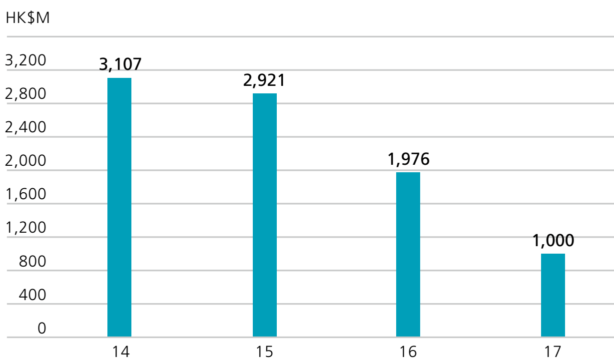
Currency Hedging

The Group's income is primarily in HK and US dollars and is matched by expenditure in the same currencies. The exception is TAECO which has substantial Renminbi expenditure, but has part of its revenue in US dollars. TAECO mitigates its exposure to changes in the exchange rate of the US dollar against Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 31st December 2013, TAECO had sold forward a total of US$84 million to fund part of its Renminbi requirements for 2014 and 2015. The weighted average exchange rate applicable to these forward sales was RMB6.34 to US$1. Due to the strengthening of the Renminbi against the US dollar, unrealised mark-to-market gains of HK$31 million on forward foreign exchange contracts arose in 2013.

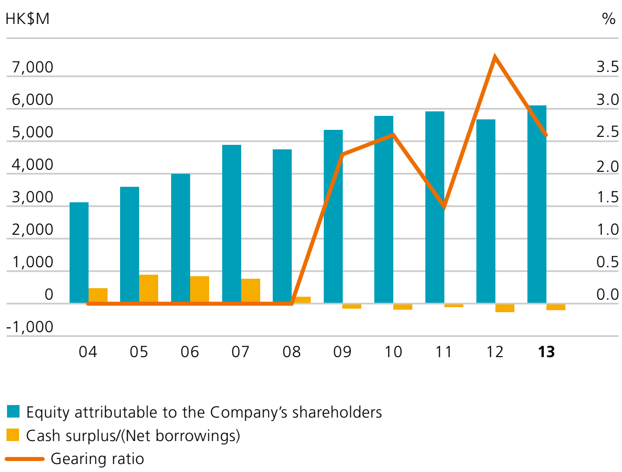
Facilities – Loan



Maturity Profile of Total Available Loan Facilities at 31st December 2013



Equity and Cash Surplus / Net Borrowings



Corporate Governance

Governance Culture

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

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

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

Corporate Governance Statement

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

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

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

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

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

The Board of Directors

Role of the Board

The Company is governed by a Board of Directors, which has responsibility for strategic leadership and control of the Group designed to maximise shareholder value, while taking due account of the interests of those with whom the Group does business and others.

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

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

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

Chairman and Chief Executive

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

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

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda
- facilitating effective contributions from and dialogue with all Directors and constructive relations between them

- ensuring that all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed

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

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

Board Composition

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

The Board comprises the Chairman, three other Executive Directors and seven Non-Executive Directors. Their biographical details are set out on pages 48 and 49 of this report and are posted on the Company's website.

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

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

The Board considers that four of the seven Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules. R.E. Adams and L.K.K. Leong have served as Non-Executive Directors for more than nine years. The Directors are of the opinion that they remain independent, notwithstanding their length of tenure. R.E. Adams and L.K.K. Leong continue to demonstrate the attributes of an Independent Non-Executive Director noted above and there is no evidence that their tenure has had any impact on their independence. The Board believes that their detailed knowledge and experience of the Group's business and their external experience continue to be of significant benefit to the Company, and that they maintain an independent view of its affairs.

The Independent Non-Executive Directors:

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

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

Appointment and Re-election

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

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

Full details of changes in the Board during the year and to the date of this report are provided in the Directors' Report on page 52.

Board Diversity

The Board adopted a board diversity policy with effect from 1st September 2013 in compliance with a new code provision on board diversity in the CG Code, which came into effect on the same date. The board diversity policy is available on the Company's website.

In order to achieve a diversity of perspectives among members of the Board, it is the policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders.

Responsibilities of Directors

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

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

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

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

Each Director ensures that he can give sufficient time and attention to the affairs of the Group. All Directors disclose to the Board on their first appointment their interests as a Director or otherwise in other companies or organisations and such declarations of interests are updated regularly.

Details of Directors' other appointments are shown in their biographies on pages 48 and 49.

Board Processes

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

The dates of the 2013 Board meetings were determined in 2012 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met five times in 2013. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 32. Average attendance at Board meetings was 95%. All Directors attended Board meetings in person or through electronic means of communication during the year.

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

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

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

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

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

A typical Board meeting would consist of:

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

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

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility. Two such meetings were held in 2013.

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

Directors	Meetings Attended/Held: Board	Audit Committee	Remuneration Committee	2013 Annual General Meeting	2013 EGM	Continuous Professional Development: Type of Training *(Note)*
Executive Directors						
C.D. Pratt – Chairman	5/5			√	√	*A*
M. Hayman	5/5			√	X	*A*
F.N.Y. Lung	5/5			√	√	*A*
A.K.W. Tang	5/5			√	√	*A*
Non-Executive Directors						
C.P. Gibbs	5/5			√	X	*A*
P.A. Johansen	5/5	3/3	2/2	√	X	*A*
M.B. Swire	4/5			√	X	*A*
Independent Non-Executive Directors						
R.E. Adams	4/5	3/3	2/2	√	√	*A*
L.K.K. Leong	5/5	3/3	2/2	√	X	*A*
D.C.L. Tong	5/5			√	X	*A*
P.P.W. Tse	4/5			√	√	*A*
Average attendance	95%	100%	100%	100%	45%	

Note:

A. All the Directors received training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors. They also kept abreast of matters relevant to their role as directors by such means as attendance at seminars and conferences and reading and viewing materials about financial, commercial, economic, legal, regulatory and business affairs.

Continuous Professional Development

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

Directors' and Officers' Insurance

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

Conflicts of Interest

If a Director has a material conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting and voted on by Directors who have no material interest in the transaction.

Delegation by the Board

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

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

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

Securities Transactions

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

A copy of the Securities Code has been sent to each Director of the Company and will be sent to each Director twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group's interim and annual results have been published, and that all their dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and senior executives of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests as at 31st December 2013 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on pages 53 and 54.

Executive Committee

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

Remuneration Committee

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

The Remuneration Committee comprises three Non-Executive Directors, R.E. Adams, P.A. Johansen and L.K.K. Leong. Two of the Committee Members are Independent Non-Executive Directors, one of whom, R.E. Adams, is Chairman. All the members served for the whole of 2013.

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

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

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code and are posted on the Company's website.

A Services Agreement exists between the Company and John Swire & Sons (H.K.) Limited, a wholly-owned subsidiary of John Swire & Sons Limited, which is the parent company of the Swire group. This agreement has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of the agreement, staff at various levels, including Executive Directors and Executive Officers, are seconded to the Company. These staff report to and take instructions from the Board of the Company but remain employees of the Swire group. Given its substantial equity interest in the Company, it is in the best interests of the Swire group to ensure that executives of high quality are seconded to and retained within the HAECO group.

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package designed to be commensurate, overall, with those of its peer group. This typically comprises salary, housing, retirement benefits, leave-passage and education allowances and, after three years' service, a bonus related to the overall profit of the Swire Pacific group. Although the remuneration of these executives is not directly linked to the profits of the Company, it is considered that these arrangements have contributed considerably to the maintenance of a flexible, motivated and high-calibre senior management team within the HAECO group.

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

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors and Executive Officers at its meeting in November 2013. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors and Executive Officers, as disclosed in note 6 to the accounts, was comparable with that paid to equivalent executives in peer group companies.

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

The following fee levels have been approved by the Board:

	2013 HK$	2014 HK$
Fee		
Director's Fee	345,000	380,000
Fee for Audit Committee Chairman	120,000	140,000
Fee for Audit Committee Member	90,000	90,000
Fee for Remuneration Committee Chairman	46,000	50,000
Fee for Remuneration Committee Member	35,000	35,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

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

Internal Controls

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's system of internal controls with a view to ensuring that shareholders' investments and the Company's assets are safeguarded. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed from pages 37 and 38.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal audit: Independent of management, the Internal Audit department reports directly to the Chairman and performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on pages 38 and 39.

Audit Committee

The Audit Committee, consisting of three Non-Executive Directors, L.K.K. Leong, R.E. Adams and P.A. Johansen, assists the Board in discharging its responsibilities for corporate governance and financial reporting. Two of the Committee members are Independent Non-Executive Directors, one of whom, L.K.K. Leong is Chairman. All the members served for the whole of 2013.

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

The Audit Committee met three times in 2013. Regular attendees at the meetings are the Group Director Finance, the Head of Internal Audit of the Swire group and the external auditors. The Audit Committee meets at least twice a year with the external auditors, and at least once a year with the Head of Internal Audit, without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2013 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2012 annual and 2013 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's internal controls and risk management systems
- the Group's risk management processes
- the approval of the 2014 annual Internal Audit programme and review of progress on the 2013 programme
- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on pages 39 and 40
- the Company's compliance with the CG Code.

In 2014, the Committee has reviewed, and recommended to the Board for approval, the 2013 accounts.

Assessing the Effectiveness of Internal Controls

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

This assessment considers:

- the scope and quality of management's monitoring of risks and of the systems of internal control, the work of Internal Audit and the assurances provided by the Group Director Finance
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or position
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit
- work programmes proposed by both Internal Audit and the external auditors
- significant issues arising from internal and external audit reports
- the results of management's control self assessment exercise.

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

Company Secretary

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

Internal Audit Department

The Swire group has had an Internal Audit Department ("IA") in place for 18 years. IA plays a critical role in monitoring the governance of the Group. The department is staffed by 21 audit professionals and conducts audits of the Group and of other companies in the Swire group. The 21 professionals include a team based in Mainland China which reports to IA in Hong Kong.

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

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

Scope of Work

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

The frequency of each audit is determined by IA using its own risk assessment methodology, which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, considering such factors as recognised risks, organisational change, overall materiality of each unit, previous IA results, external auditors' comments, output from the work of the Swire Pacific Group Risk Management Committee and management's views. Each business unit is typically audited at least once every three years. Acquired businesses would normally be audited within 12 months. Six assignments were conducted for HAECO in 2013.

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

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

Audit Conclusion and Response

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

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

External Auditors

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

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

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

Auditors' Independence

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

Provision of Non-audit Services

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

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

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

The fees in respect of audit (and audit related) and non-audit services provided to the Group by the external auditors for 2013 amounted to approximately HK$6 million and HK$5 million respectively. The non-audit services mainly consist of assurance and tax advisory services.

Shareholders

Communication with Shareholders and Investors

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

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

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

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

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 7th May 2013. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 32.

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

- receiving the report of the Directors and the audited accounts for the year ended 31st December 2012
- re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share repurchases
- a general mandate authorising the Directors to allot and issue shares up to 20% of the then issued share capital, provided that the aggregate nominal amount of the shares of any class so allotted wholly for cash would not exceed 5% of the aggregate nominal amount of the shares then in issue
- changing the name of the Company from "Hong Kong Aircraft Engineering Company Limited" to "Hong Kong Aircraft Engineering Company Limited 香港飛機工程有限公司".

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

Shareholder engagement

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

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

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

Other information for shareholders

Key shareholder dates for 2014 are set out on page 123 of this report.

The name of the Company was changed from "Hong Kong Aircraft Engineering Company Limited" to "Hong Kong Aircraft Engineering Company Limited 香港飛機工程有限公司" with effect from 15th May 2013. No amendment has been made to the Company's Articles of Association during the year.

Sustainable Development

Solar water heaters installed on the roof of a hangar in HAECO

The Group believes that the creation of long-term value for its shareholders depends on the sustainable development of its businesses and its involvement with the communities in which it operates. The Group's sustainable development policy recognises this and informs the management of environmental, health and safety, employment, community and supplier matters. The Group also encourages cooperation with others to promote sustainable development in the aviation industry.

The Group will publish a separate sustainable development report (which will be available on the Group's website) later this year to highlight progress and development on various areas.

Environment

The Group recognises the need to reduce the impact of its operations on the environment. The Group does this by using alternative sources of energy (which will reduce carbon emissions), by investing in energy efficient equipment and systems, by reducing waste and by cooperating with others.

In 2013, HAECO saved 200,000 kilowatt hours ("kWh") of electricity consumption. It reduced greenhouse gas emissions by replacing more conventional lights with LED lights and by using standby lighting on staircases. It carried out an energy audit as required by the Hong Kong Electrical & Mechanical Services Department.

HAESL explored the use of biofuels for engine testing and improved its air-conditioning and building management systems so as to improve air quality and reduce electricity consumption.

Radiant cooling ceiling system installed in the administrative building of HAECO

Introduction of a new automated aircraft cleaning system which reduces water consumption and raises occupational safety

Environment

1.3 Million kWh

Renewable Energy Generated

In 2013, the solar panels at TAECO's premises generated approximately 1.3 million kWh of electricity, 8% more than in 2012. Replacement of conventional lights with LED lights at TAECO's premises is expected to save approximately 270,000 kWh of electricity consumption per year and to reduce annual carbon emissions by approximately 210 tonnes. TAECO has decided to upgrade its waste water and waste gas treatment plant, with a view to reducing waste and the cost of disposing of waste.

In 2013:

- The Group emitted 87,503 tonnes of carbon dioxide equivalent, a 4.7% decrease as compared to 2012;
- HAECO collected 55,622 kilograms of waste food as part of the Airport Authority of Hong Kong's food waste recycling scheme. The food waste was recycled in a fish feed production plant;
- TAECO supported Xiamen University in building a marine research station, which will monitor the responses of marine ecosystems to climate and other environmental changes.
- HAESL launched two campaigns, namely HAESL Green Wall and One Man One Plant Campaign, to make HAESL greener.

The Group received the following environmental awards in 2013:

- HAECO received an award from the Hong Kong Green Building Council for its radiant cooling ceiling system.

HAECO management staff demonstrating body stretching exercise on HAECO Sunny Day

A working platform with solar powered navigation system tailor-made for the repair of aircraft windshield

New working gloves and bump cap introduced in HAESL to enhance work safety

- HAECO received a silver medal from CLP Power Hong Kong for its excellent contribution to the environment.
- HAECO received a poster award at the 36th World Energy Engineering Congress in Washington D.C.
- HAECO achieved a low-carbon commitment partner certificate during the participation in the Carbon Audit and Carbon Smart programmes;
- HAECO received a bronze medal at the 2013 Hang Seng Pearl River Delta environmental awards.
- TAECO received the honorary title of water conservation advanced enterprise and water conservation advanced worker from the Xiamen municipal water conservation office.

Health and Safety

The Group gives health and safety a high priority in our operations. It aims to conduct its business in a manner that protects the health and safety of its employees, customers, business associates and contractors and of the public. Targets are set and performance is monitored under a safety management system. Safety training is carried out and safety audits are conducted in order to ensure that Group's standards are met and continuous improvement is made on health and safety.

The Group continued to promote safety awareness through various programmes in different operating companies with the aim of addressing their specific health and safety challenges. HAECO conducted a safety campaign, "HAECO Sunny Day 2013", with the participation of over 2,000 staff. There were interactive game booths, a safety magic show, health talks and stretching exercises.

HAESL mandated the use of eye protectors and safety footwear for staff and visitors.

New servicing steps used in line maintenance enabling staff to adjust the height easily

HAECO departmental basketball competition

Health and Safety

Lost Time Injury Rate

↓ 2%

TAECO tried to identify and eliminate hidden fire perils and started to monitor personal protective equipment.

Also in 2013:

- The occupational health and safety management systems in Hong Kong and Xiamen were standardised.
- HAECO reviewed its chemical safety and emergency responses.
- HAECO put in place heat stroke prevention procedures for staff working in aircraft cabins.
- HAESL received a good housekeeping company award from the Hong Kong Occupational Health & Safety Council.
- TAECO participated in a Civil Aviation Authority of China safety production month campaign.
- TAECO assessed its safety management system in accordance with the requirements of the State Administration of Work Safety.

The Group's lost time injury rate (the number of instances of time being lost as a result of injury per 200,000 hours worked) decreased by 2.0% between 2012 and 2013.

Employee

Over

797,000

Training Hours

Employees

The Group recognises that the development of its staff is key to the sustainable development of its business.

HAECO participates in job fairs and forums. It collaborates closely with education and vocational institutions with a view to attracting and recruiting graduates.

HAECO introduced an aircraft maintenance mechanics trainee ("AMMT") programme in September 2013. The programme provides academic training in local education institutions to assist participants to achieve higher qualifications while working. Trainees can become qualified professional aircraft engineering personnel on the completion of the training programme. In 2013, 90 staff joined the AMMT programme.

HAECO staff participating in Pedal Kart Grand Prix for a worthy cause

Trainee programmes and training opportunities provided to develop a highly skilled workforce for the Group

HAECO reviews compensation and benefit policies regularly with a view to recruiting and retaining high quality staff.

HAECO has been providing a centre in Hong Kong for conducting examinations of the accreditation of Hong Kong Aircraft Maintenance Licences for more than six years. TAECO is an approved organisation for carrying out basic aircraft maintenance licence examinations for civil aviation authorities in Mainland China and Europe.

The Group provides extensive staff training in Hong Kong and Xiamen. Staff received 797,136 hours of training in 2013.

The Group, including its subsidiary and joint venture companies, employed over 14,000 staff at the end of 2013, of which 6,690 were in Hong Kong, including 5,492 at HAECO. The staff numbers at the end of 2013 and 2012 are further analysed below.

	2013	2012	Change
HAECO	**5,492**	5,070	+8.3%
TAECO	**5,091**	5,144	-1.0%
HAESL	**1,073**	1,165	-7.9%
Other subsidiary and joint venture companies in which HAECO and TAECO own more than 20%	**2,460**	2,776	-11.4%
	14,116	14,155	-0.3%

The Community

The Group is committed to maintaining strong relationships with the communities in which it operates, to improving the opportunities and lifestyles available to members of those communities and to showing respect for their cultures and heritage.

Hangar visit organised for students from Mainland China inspiring them to join the aviation industry

Community

HK$ 4 Million
Donations

The Group provides support to Hong Kong's first aviation service research centre ("ASRC"), co-founded by Hong Kong Polytechnic University and The Boeing Company, as part of its support for the local community to incubate future aviation professional in Hong Kong. ASRC marked an important milestone in technology research development of airframe, engine and component maintenance and repair in Hong Kong and China.

Present and former group staff volunteer their services to non-profit making organisations. Scholarships are provided to outstanding students in tertiary education. Young people who show an interest in aircraft maintenance are given training opportunities.

At the Tuen Ng Festival in 2013, HAESL bought rice dumplings at a charity sale organised by Bright Services, a non-governmental organisation which provides underprivileged youth with working opportunities. The dumplings HAESL bought were given to a children's home.

TAECO was active in the community of Xiamen, with volunteers visiting Hope School and children of staff participating in a Mangrove Exploration Summer Camp, organised by the Center for Ocean Sciences Education Excellence, which raised the awareness of protecting mangrove wetland resources.

In 2013, the Group made donations for charitable and community purpose totalling HK$4 million.

Suppliers

The Group favours suppliers who share its sustainability standards. To this end, suppliers are invited, through the Group's supplier code of conduct, to evidence their commitment to legal compliance, safe operations, environmental protection and the wellbeing of staff.

Major suppliers are invited to conduct annual self-assessment questionnaires about sustainability matters.

The Group participates in the Swire supply chain sustainability working group, which promotes sustainable practices in procurement among Swire group companies.

Directors and Officers

Executive Directors

PRATT, Christopher Dale, CBE, aged 57, has been Chairman and a Director of the Company since August 2006. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Cathay Pacific Airways Limited and Swire Properties Limited, and a Director of Air China Limited and The Hongkong and Shanghai Banking Corporation Limited. He will retire from these positions with effect from 14th March 2014. He joined the Swire group in 1978 and has worked with the group in Hong Kong, Australia and Papua New Guinea.

SLOSAR, John Robert, aged 57, has been appointed Chairman and a Director of the Company with effect from 14th March 2014. He is a Director and Chief Executive of Cathay Pacific Airways Limited, a Director of John Swire & Sons (H.K.) Limited and Chairman of Swire Beverages Limited. He was Managing Director of the Company from January 1996 to June 1998. He has also been appointed Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited with effect from 14th March 2014. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

TANG, Kin Wing Augustus, aged 55, has been a Director and Chief Executive Officer of the Company since October 2008 and November 2008 respectively. He joined the Swire group in 1982 and has worked with Cathay Pacific Airways Limited in Hong Kong, Malaysia and Japan. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited.

HAYMAN, Mark, aged 53, joined the Company in October 2001 and was appointed Director Engineering in February 2002 and Group Director Engineering and Operations in June 2013. 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 47, was appointed Director Finance in August 2010 and Group Director Finance in June 2013. 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 52, 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 71, has been a Director of the Company since July 1984. He joined the Swire group in 1973 and worked in Hong Kong, Japan and the United Kingdom before retiring from John Swire & Sons Limited on 31st December 2008. He is also a Director of Swire Pacific Limited.

SWIRE, Merlin Bingham, aged 40, has been a Director of the Company since January 2009. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He was Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, from May 2006 until June 2008. He is a Director and shareholder of John Swire & Sons Limited, a Director of Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited, and an Alternate Director of Steamships Trading Company Limited.

Independent Non-Executive Directors

ADAMS, Robert Ernest, aged 70, 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 53, has been a Director of the Company since March 2003. He is also Deputy Chief Executive Officer of MTR Corporation Limited and an Independent Non-Executive Director of Mandarin Oriental International Limited.

TONG, Chi Leung David, aged 43, has been a Director of the Company since May 2006. He is also a Director of Sir Elly Kadoorie & Sons Limited and CLP Power Hong Kong Limited, Deputy Chairman of Hong Kong Business Aviation Centre Limited and a Non-Executive Director of Tai Ping Carpets International Limited.
Alternate: The Hon. Sir Michael David KADOORIE

TSE, Pak Wing Peter, aged 62, has been a Director of the Company since December 2012. He was previously an Executive Director of CLP Holdings Limited and is an Independent Non-Executive Director of HSBC Bank (China) Company Limited.

Executive Officers

CHADWICK, Stephen Edward, aged 53, was appointed Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, in August 2012. He joined the Swire group in 1991 and was previously General Manager Engineering Technical of Cathay Pacific Airways Limited.

CHAN, Ching Summit, aged 48, 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 and Group Director Commercial in June 2013.

CHAU, Siu Cheong William, aged 60, was appointed Group Director Human Resources of the Company in September 2013. He joined the Swire group in 1973 and was previously Director Personnel of Cathay Pacific Airways Limited.

LAM, Siu Por Ronald, aged 41, was appointed Director and General Manager, Hong Kong Operations of the Company in July 2013. He joined the Swire group in 1996 and has previously worked with Cathay Pacific Airways Limited in Hong Kong, Japan and Sri Lanka.

TANG, Kwok Kit Kenny, aged 59, was appointed Corporate Development Director of the Company in September 2009, Chief Operating Officer in May 2010 and Group Director Corporate Development in June 2013. 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 50, has been Company Secretary since January 2006. He joined the Swire group in 1988.

Notes:
1. *The Audit Committee comprises L.K.K. Leong (committee chairman), R.E. Adams and P.A. Johansen.*
2. *The Remuneration Committee comprises R.E. Adams (committee chairman), P.A. Johansen and L.K.K. Leong.*
3. *S.C. Chan, W.S.C. Chau, R.S.P. Lam, F.N.Y. Lung, C.D. Pratt, J.R. Slosar, M.B. Swire, A.K.W. Tang and K.K.K. Tang are employees of the John Swire & Sons Limited group.*

Directors' Report

The Directors submit their report and the audited accounts for the year ended 31st December 2013, which are set out on pages 57 to 119. Details of the following items are set out in the accounts as follows:

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 120 and 121.

Dividends

The Directors have declared a second interim dividend of HK$1.30 per share for the year ended 31st December 2013. Together with the first interim dividend of HK$0.80 per share paid on 17th September 2013, this results in a total dividend for the year of HK$2.10 per share and represents a total distribution of HK$349 million. The second interim dividend will be paid on 29th April 2014 to shareholders registered at the close of business on the record date, being Friday, 28th March 2014. Shares of the Company will be traded ex-dividend as from Wednesday, 26th March 2014.

Closure of Register of Members

The register of members will be closed on Friday, 28th March 2014 during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 27th March 2014.

To facilitate the processing of proxy voting for the annual general meeting to be held on 9th May 2014, the register of members will be closed from Monday, 5th May 2014 to Friday, 9th May 2014, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 2nd May 2014.

Donations

During the year the Company and its subsidiary companies made donations for charitable and community purposes totalling HK$4 million.

Agreement for Services

The Company has an agreement for services with John Swire & Sons (H.K.) Limited ("JSSHK"), the particulars of which are set out in note 37 to the accounts (the note on related party and continuing connected transactions).

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, F.N.Y. Lung, C.D. Pratt, J.R. Slosar, M.B. Swire and A.K.W. Tang are interested in the JSSHK Services Agreement (as defined below). M.B. Swire is also interested as a shareholder of Swire.

Particulars of the fees paid and expenses reimbursed for the year ended 31st December 2013 are set out in note 37 to the accounts.

Major Customers and Suppliers (Significant Contracts)

77.2% of sales and 54.0% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 36.4% of sales were made to the Group's largest customers, Cathay Pacific and its subsidiary companies Dragonair and AHK Air Hong Kong Limited, while 40.1% of purchases were from the largest suppliers, General Electric Group.

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

1. C.P. Gibbs is interested as employee of Cathay Pacific;
2. C.D. Pratt, J.R. Slosar and M.B. Swire are interested as directors of Cathay Pacific; and
3. L.K.K. Leong is interested as a public minority shareholder of General Electric Company.

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.

Continuing Connected Transactions

HAECO, Cathay Pacific and HXITM entered into a framework agreement on 13th November 2013 ("Framework Agreement"), under which services (being maintenance and related services in respect of aircraft, aircraft engines and aircraft parts and components and including inventory technical management services and the secondment of personnel) are provided by the HAECO Group to Cathay Pacific and its subsidiaries (the "Cathay Pacific Group") and vice versa and by HXITM to the HAECO Group and vice versa. Payment is made in cash within 30 days of receipt of invoices. The term of the Framework Agreement is for 10 years ending on 31st December 2022.

Cathay Pacific is an associate of the Company's holding company Swire Pacific Limited and therefore a connected person of the Company under the Listing Rules. As Cathay Pacific, a connected person of HAECO at the listed company level, owns more than 10% of the voting rights in HXITM, HXITM is also a connected person of HAECO. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 13th November 2013 was published, a circular dated 10th December 2013 was sent to shareholders and an extraordinary general meeting ("2013 EGM") of the Company was held on 31st December 2013.

The Independent Non-Executive Directors, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out in note 37 have been entered into by the Group:

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

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

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

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

(a) they have been approved by the Board of the Company;

(b) they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group);

(c) they have been entered into in accordance with the relevant agreements governing the transactions; and

(d) they have not exceeded the relevant annual caps disclosed in previous announcements.

Directors

The Directors of the Company as at the date of this report are listed on pages 48 and 49 and served throughout the calendar year 2013. With effect from 14th March 2014, J.R. Slosar will succeed C.D. Pratt as Chairman and a Director of the Company.

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, R.E. Adams, M. Hayman and F.N.Y. Lung retire this year and, being eligible, offer themselves for re-election.

J.R. Slosar, having been appointed to the Board under Article 91 since the last Annual General Meeting, also retires and offers himself for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election or re-election. No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Fees totalling HK$1.67 million were paid to the Independent Non-Executive Directors during the year; they received no other emoluments from the Company or any of its subsidiary companies.

Directors' Interests

As at 31st December 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 (%)
Swire Properties Limited					
Ordinary Shares					
P.A. Johansen	50,050	–	–	50,050	0.00086
C.D. Pratt	4,200	–	–	4,200	0.00007

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 7,899,584 ordinary shares and 2,237,039 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have any beneficial interest in those shares.*

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

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

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

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

Directors' Interests in Competing Businesses

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

Substantial Shareholders' and Other Interests

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

Notes:
At 31st December 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 47.08% of the issued share capital and approximately 60.23% 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, 11th March 2014

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 57 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, 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, 11 March 2014

Consolidated Statement of Profit or Loss

for the year ended 31st December 2013

	Note	2013 HK$M	2012 HK$M (Restated)
Turnover	4	**7,387**	5,830
Operating expenses:			
Staff remuneration and benefits	5	**(3,053)**	(2,611)
Cost of direct material and job expenses		**(3,039)**	(1,706)
Depreciation, amortisation and impairment	13, 14	**(488)**	(490)
Insurance and utilities		**(87)**	(86)
Operating lease rentals – land and buildings		**(180)**	(172)
Repairs and maintenance		**(149)**	(142)
Other		**(212)**	(181)
		(7,208)	(5,388)
Other net gains/(losses)	7	**87**	(8)
Operating profit		**266**	434
Finance income	8	**21**	18
Finance charges	8	**(59)**	(35)
Net operating profit		**228**	417
Share of after-tax results of joint venture companies	16	**501**	560
Profit before taxation		**729**	977
Taxation	9	**(33)**	(122)
Profit for the year		**696**	855
Profit attributable to:			
The Company's shareholders	10	**625**	822
Non-controlling interests		**71**	33
		696	855
Dividends			
First interim – paid		**133**	146
Second interim – declared		**216**	333
	11	**349**	479
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	12	**HK$3.76**	HK$4.94

The notes on pages 63 to 114 and the principal accounting policies on pages 115 to 119 form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the year ended 31st December 2013

	2013 HK$M	2012 HK$M (Restated)
Profit for the year	**696**	855
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes		
– actuarial gains recognised	**246**	35
– deferred tax	**(40)**	(6)
Items that may be reclassified subsequently to profit or loss		
Share of other comprehensive income of joint venture companies	**18**	6
Net translation differences on foreign operations	**83**	18
Other comprehensive income for the year, net of tax	**307**	53
Total comprehensive income for the year	**1,003**	908
Total comprehensive income attributable to:		
The Company's shareholders	**902**	866
Non-controlling interests	**101**	42
	1,003	908

The notes on pages 63 to 114 and the principal accounting policies on pages 115 to 119 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2013

	Note	2013	2012	2011
		HK$M	HK$M (Restated)	HK$M (Restated)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	13	**4,909**	4,793	4,893
Leasehold land and land use rights	13	**359**	362	370
Intangible assets	14	**503**	528	560
Joint venture companies	16	**1,213**	1,156	1,086
Derivative financial instruments	20	**11**	2	3
Deferred tax assets	19	**83**	46	69
Retirement benefit assets	18	**333**	138	140
Long-term prepayment		**13**	12	–
		7,424	7,037	7,121
Current assets				
Stocks of aircraft parts	22	**327**	295	310
Work in progress	23	**130**	213	143
Trade and other receivables	24	**2,045**	1,497	993
Derivative financial instruments	20	**16**	3	5
Cash and cash equivalents	32(b)	**2,341**	1,418	1,320
Short-term deposits	32(b)	**23**	5	24
		4,882	3,431	2,795
Current liabilities				
Trade and other payables	25	**1,875**	1,415	1,157
Taxation payable		**35**	58	18
Derivative financial instruments	20	**–**	1	–
Short-term loans	26	**533**	159	154
Long-term loans due within one year	26	**369**	103	1,003
		2,812	1,736	2,332
Net current assets		**2,070**	1,695	463
Total assets less current liabilities		**9,494**	8,732	7,584
Non-current liabilities				
Long-term loans	26	**1,655**	1,422	293
Receipt in advance	31	**37**	48	58
Deferred income		**11**	10	–
Advance from a related party	27	**90**	90	–
Put option over a non-controlling interest in a subsidiary company	3(a)	**72**	72	–
Deferred tax liabilities	19	**303**	275	306
Derivative financial instruments	20	**–**	8	1
		2,168	1,925	658
NET ASSETS		**7,326**	6,807	6,926
EQUITY				
Share capital	28	**166**	166	166
Reserves	29	**5,931**	5,505	5,745
Equity attributable to the Company's shareholders		**6,097**	5,671	5,911
Non-controlling interests	30	**1,229**	1,136	1,015
TOTAL EQUITY		**7,326**	6,807	6,926

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

Christopher Pratt
Lincoln Leong
Directors

Hong Kong, 11th March 2014

The notes on pages 63 to 114 and the principal accounting policies on pages 115 to 119 form part of these financial statements.

Company Statement of Financial Position

at 31st December 2013

	Note	2013	2012	2011
		HK$M	HK$M (Restated)	HK$M (Restated)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*13*	**2,022**	2,130	2,460
Leasehold land	*13*	**14**	15	15
Intangible assets	*14*	**3**	–	–
Subsidiary companies	*15*	**1,260**	1,157	801
Joint venture companies		**113**	123	145
Loan due from a subsidiary company	*15*	**210**	210	–
Retirement benefit assets	*18*	**333**	138	140
		3,955	3,773	3,561
Current assets				
Stocks of aircraft parts	*22*	**184**	184	201
Work in progress	*23*	**67**	59	65
Trade and other receivables	*24*	**557**	740	809
Cash and cash equivalents		**1,475**	767	813
		2,283	1,750	1,888
Current liabilities				
Trade and other payables	*25*	**683**	677	597
Taxation payable		**17**	49	16
Long-term loans due within one year	*26*	**150**	–	100
		850	726	713
Net current assets		**1,433**	1,024	1,175
Total assets less current liabilities		**5,388**	4,797	4,736
Non-current liabilities				
Long-term loans	*26*	**788**	442	98
Receipt in advance	*31*	**37**	48	58
Deferred tax liabilities	*19*	**232**	212	246
		1,057	702	402
NET ASSETS		**4,331**	4,095	4,334
EQUITY				
Equity attributable to the Company's shareholders				
Share capital	*28*	**166**	166	166
Reserves	*29*	**4,165**	3,929	4,168
TOTAL EQUITY		**4,331**	4,095	4,334

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

Christopher Pratt
Lincoln Leong
Directors

Hong Kong, 11th March 2014

The notes on pages 63 to 114 and the principal accounting policies on pages 115 to 119 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2013

	Note	2013	2012
		HK$M	HK$M
Operating activities			
Cash generated from operations	*32(a)*	**644**	792
Interest paid		**(49)**	(31)
Interest received		**17**	17
Tax paid		**(107)**	(94)
Net cash generated from operating activities		**505**	684
Investing activities			
Purchase of property, plant and equipment		**(558)**	(364)
Purchase of intangible assets		**(2)**	–
Proceeds from disposals of property, plant and equipment		**2**	3
Purchase of shares in joint venture companies		**–**	(19)
Loans to a joint venture company		**–**	(33)
Repayment of loans by joint venture companies		**91**	20
Dividends received from joint venture companies		**471**	502
Net cash inflow on purchase of shares in a subsidiary company		**11**	–
Net decrease in deposits maturing after more than three months		**2**	20
Net cash generated from investing activities		**17**	129
Net cash inflow before financing activities		**522**	813
Financing activities			
Proceeds from loans		**1,131**	745
Repayment of loans		**(257)**	(534)
Capital contribution from non-controlling interests		**5**	85
Advance from a non-controlling interest		**–**	90
Repayment of advance from a non-controlling interest		**–**	(24)
Dividends paid to the Company's shareholders		**(466)**	(1,028)
Dividends paid to non-controlling interests		**(31)**	(44)
Net cash generated from/(used in) financing activities		**382**	(710)
Net increase in cash and cash equivalents		**904**	103
Cash and cash equivalents at 1st January		**1,418**	1,320
Currency adjustment		**19**	(5)
Cash and cash equivalents at 31st December	*32(b)*	**2,341**	1,418

The notes on pages 63 to 114 and the principal accounting policies on pages 115 to 119 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2013

	Note	Attributable to the Company's shareholders					
	Note	Share capital	Revenue reserve	Other reserves	Total	Non-controlling interests	Total equity
		HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 1st January 2013							
as originally stated		**166**	**5,514**	**177**	**5,857**	**1,136**	**6,993**
adjustment on adoption of HKAS19 revised		**–**	**(186)**	**–**	**(186)**	**–**	**(186)**
as restated		**166**	**5,328**	**177**	**5,671**	**1,136**	**6,807**
Profit for the year		**–**	**625**	**–**	**625**	**71**	**696**
Other comprehensive income		**–**	**226**	**51**	**277**	**30**	**307**
Total comprehensive income for the year		**–**	**851**	**51**	**902**	**101**	**1,003**
Dividends paid		**–**	**(466)**	**–**	**(466)**	**(31)**	**(497)**
Change in composition of the Group	*30, 35*	**–**	**(10)**	**–**	**(10)**	**23**	**13**
At 31st December 2013		**166**	**5,703**	**228**	**6,097**	**1,229**	**7,326**

	Note	Attributable to the Company's shareholders					
	Note	Share capital	Revenue reserve	Other reserves	Total	Non-controlling interests	Total equity
		HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 1st January 2012							
as originally stated		166	5,744	165	6,075	1,015	7,090
adjustment on adoption of HKAS19 revised		–	(164)	–	(164)	–	(164)
as restated		166	5,580	165	5,911	1,015	6,926
Profit for the year, as restated		–	822	–	822	33	855
Other comprehensive income, as restated		–	32	12	44	9	53
Total comprehensive income for the year, as restated		–	854	12	866	42	908
Recognition of a put option over a non-controlling interest in a subsidiary company		–	(72)	–	(72)	–	(72)
Dividends paid		–	(1,028)	–	(1,028)	(12)	(1,040)
Change in composition of the Group	*30, 35*	–	(6)	–	(6)	91	85
At 31st December 2012, as restated		166	5,328	177	5,671	1,136	6,807

The notes on pages 63 to 114 and the principal accounting policies on pages 115 to 119 form part of these financial statements.

Notes to the Consolidated Accounts

1. General information

Hong Kong Aircraft Engineering Company Limited is a limited liability company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company and its subsidiary companies are engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong and Mainland China.

The principal activities of the Group's major subsidiary and joint venture companies are set out in note 40. Segment information is provided in note 4. Financial summaries of the joint venture companies are provided in note 16.

2. Financial risk management

(a) Financial risk factors

The Group's activities are exposed to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It is the Group's policy not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk, principally foreign exchange risk, and the Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the transactions being hedged.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Renminbi. Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations.

The Group Treasury's risk management policy is to hedge not more than 100% of the net notional value of highly probable transactions (largely represented by sales transactions, operating and capital expenditure) in each major foreign currency, for a period of up to 36 months, where their value of time to execution gives rise to a significant currency exposure, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive having regard to the underlying exposure.

Exposure to movements in exchange rates on transactions is minimised by using forward foreign exchange contracts where active markets for the relevant currencies exist. The hedging positions of individual subsidiary companies are monitored regularly to ensure the forward foreign exchange transactions are entered into in accordance with the Group's foreign exchange hedging policy. At 31st December 2013, the Group had hedged its significant foreign currency funding exposures, by fixing the foreign exchange rates with forward contracts.

At 31st December 2013, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, profit after tax for the year would have been HK$10 million (2012: HK$12 million) higher/lower, arising mainly from the net foreign exchange gains/losses caused by the monetary assets and liabilities.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from borrowings at floating rates. During 2012 and 2013, the Group's borrowings were at floating rates and were primarily denominated in HK dollars and US dollars. The Group earns interest income on cash deposits and loans due from joint venture companies.

The Group entered into interest rate swaps and forward rate agreements to manage a portion of its interest rate exposure. The Group's interest rate exposure is reviewed regularly to ensure hedging of interest risk is in compliance with the Group's interest rate hedging policy.

The Group's results in 2012 and 2013 are not materially affected by changes in interest rates due to the Group's low level of net borrowings partially hedged by interest rate swaps.

(iii) Credit risk

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 mitigates its exposure to non-performance by counterparties by dealing with investment grade counterparties, setting approved counterparty limits and applying monitoring procedures. Counterparty credit exposure limits for financial institutions are monitored regularly to ensure each individual subsidiary company and joint venture company complies with the approved counterparty limits.

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Guarantees provided in respect of loans of:				
Subsidiary companies	**–**	–	**659**	710
Joint venture companies	**66**	68	**–**	50
	66	68	**659**	760

(iv) Liquidity risk

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

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

The tables below analyse the contractual undiscounted cash flows of the Group's and the Company's non-derivative financial liabilities and net-settled derivative financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the contractual maturity date:

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 31st December 2013					
Group					
Bank loans (including interest obligations)	**2,643**	**936**	**924**	**783**	**–**
Trade and other payables	**617**	**617**	**–**	**–**	**–**
Advance from a related party	**90**	**–**	**90**	**–**	**–**
Put option over a non-controlling interest in a subsidiary company	**84**	**–**	**–**	**84**	**–**
Financial guarantee contracts	**66**	**66**	**–**	**–**	**–**
	3,500	**1,619**	**1,014**	**867**	**–**

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

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

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 31st December 2013					
Company					
Bank loans (including interest obligations)	**990**	**166**	**513**	**311**	**–**
Trade and other payables	**156**	**156**	**–**	**–**	**–**
Financial guarantee contracts	**659**	**659**	**–**	**–**	**–**
	1,805	**981**	**513**	**311**	**–**

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

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern and to secure access to finance at a reasonable cost. Capital comprises total equity, as shown in the consolidated statement of financial position.

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 122. The gearing ratio at 31st December 2013 was 2.6% (2012: 3.8%, as restated). The decrease in the gearing ratio during 2013 mainly reflects net cash generated from operating activities during the year.

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

(c) Fair value estimation

The tables below analyse financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (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).
- Unobservable inputs for the asset or liability (level 3).

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

	Group		
	Level 2	Level 3	Total carrying amount
	HK$M	HK$M	HK$M
Assets			
At 31st December 2013			
Derivatives not qualifying as hedges	**27**	**–**	**27**
Total	**27**	**–**	**27**
At 31st December 2012			
Derivatives not qualifying as hedges	5	–	5
Total	5	–	5
Liabilities			
At 31st December 2013			
Put option over a non-controlling interest in a subsidiary company	**–**	**72**	**72**
Total	**–**	**72**	**72**
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

There were no transfers into or out of Level 3 fair value hierarchy classifications.

The fair value of derivatives in Level 2 is determined based on quotes from market makers or alternative market participants supported by observable inputs. The most significant inputs are market interest rates and exchange rates.

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.

2. Financial risk management (continued)

(c) Fair value estimation (continued)

The following table presents the changes in Level 3 financial instrument:

	Group Total HK$M
Financial liabilities at fair value through profit or loss	
At 1st January 2012	–
Issuance	72
At 31st December 2012	72
At 31st December 2013	**72**

There has been no change in the valuation techniques for Level 2 and Level 3 fair value hierarchy classifications.

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

Description	Unobservable inputs	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 terminal growth rate, the higher the fair value	+/-1%	49/(34)
	Discount rate	8%	The higher the discount rate, the lower the fair value	+/-1%	(49)/71

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 the Group Director Finance. Discussions of valuation processes and results are held between the Group Director Finance and the valuation team at least once every six months, in line with the Group's external reporting dates.

3. Critical accounting estimates and judgements

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

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

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 and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for calculating the fair value of the put option in respect of non-controlling interest in a subsidiary company.

(b) Taxation (Note 9)

(c) Impairment of assets (Notes 13 and 14)

(d) Retirement benefits (Note 18)

(e) Insurance receivable arisen from the fire at TALSCO (Notes 24 and 25)

4. Segment information

Accounting Policy

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

Turnover represents the aggregate 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.

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

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

				HAESL				
	HAECO	TAECO	TEXL	At 100%	Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Year ended 31st December 2013								
External turnover	3,169	1,860	2,095	10,953	(10,953)	263	–	7,387
Inter-segment turnover	48	10	1	2	(2)	64	(123)	–
Total turnover	3,217	1,870	2,096	10,955	(10,955)	327	(123)	7,387
Operating profit/(loss)	96	180	62	978	(978)	(72)	–	266
Finance income	7	12	1	–	–	1	–	21
Finance charges	(25)	(6)	(16)	(5)	5	(12)	–	(59)
Share of after-tax results of joint venture companies	–	–	–	222	243	–	36	501
Profit/(loss) before taxation	78	186	47	1,195	(730)	(83)	36	729
Taxation (charge)/credit	(18)	(25)	1	(161)	161	12	(3)	(33)
Profit/(loss) for the year	60	161	48	1,034	(569)	(71)	33	696
Depreciation and amortisation	166	153	65	95	(95)	62	–	446
Provision for impairment of stock and property, plant and equipment	6	3	–	–	–	56	–	65
Reversal of impairment of property, plant and equipment	–	–	–	–	–	(14)	–	(14)
Auditors' remuneration – statutory audit fees	2	1	–	–	–	–	–	3

4. Segment information (continued)

	HAECO	TAECO	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M (Restated)	HK$M	HK$M	HK$M (Restated)	HK$M (Restated)	HK$M	HK$M	HK$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)
Auditors' remuneration – statutory audit fees	2	1	–	–	–	–	–	3

	HAECO	TAECO	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 31st December 2013								
Total segment assets	**4,865**	**3,218**	**1,757**	**3,874**	**(3,874)**	**1,683**	**(430)**	**11,093**
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	**60**	**55**	**44**	**60**	**(60)**	**366**	**(1)**	**524**
Total segment liabilities	**1,907**	**777**	**1,092**	**2,140**	**(2,140)**	**1,645**	**(441)**	**4,980**

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$M (Restated)	HK$M	HK$M	HK$M (Restated)	HK$M (Restated)	HK$M	HK$M	HK$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.

	2013	2012
	HK$M	HK$M (Restated)
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	**11,093**	9,312
Unallocated: investment in joint venture companies	**1,213**	1,156
Total assets	**12,306**	10,468

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

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

4. Segment information (continued)

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

	2013	2012
	HK$M	HK$M (Restated)
The Group's turnover derived from external customers:		
In Hong Kong	**2,740**	2,536
In other countries	**4,647**	3,294
	7,387	5,830
Total non-current assets other than financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	**2,635**	2,436
In other countries (mainly in Mainland China)	**3,149**	3,259
	5,784	5,695
Single external customers amounting to 10% or more of the Group's turnover:		
Turnover in HAECO, TAECO, TEXL and other segments derived from customer A	**2,691**	2,447
Turnover in HAECO, TAECO and TEXL derived from customer B	**2,101**	–
	4,792	2,447

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 2013 amounted to HK$3,053 million (2012: HK$2,611 million, as restated). Of the five highest paid employees, two (2012: two) were Directors and two (2012: two) were Executive Officers whose emoluments are given in note 6. The emolument of the remaining one (2012: one) individual during the year is as follows:

	2013	2012
	HK$000	HK$000
Basic salary	**1,624**	1,554
Bonus	**571**	545
Allowances, gratuities and benefits	**2,576**	2,106
Retirement scheme contributions	**15**	14
	4,786	4,219

6. Directors' and Executive Officers' emoluments

The total number of Directors who served during the year was 11 (2012: 11) and the total number of Executive Officers who served during the year was five (2012: four). Their emoluments were as follows:

	Group							
	Cash			Non Cash				
	Basic salary/ Directors' fees (note a)	Bonus (note b)	Allowances and benefits	Retirement schemes contributions	Bonus paid into retirement schemes	Housing and other benefits	**2013 Total**	2012 Total
	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	**HK$000**	HK$000
Executive Directors:								
Christopher Pratt	588	534	33	150	165	424	**1,894**	2,180
Augustus Tang	3,030	4,100	1,445	518	–	1	**9,094**	9,882
Mark Hayman	2,136	1,415	935	–	–	17	**4,503**	4,544
Fanny Lung	1,920	1,100	376	328	–	1	**3,725**	3,468
	7,674	7,149	2,789	996	165	443	**19,216**	20,074
Non-Executive Directors:								
Christopher Gibbs	–	–	–	–	–	–	**–**	–
Peter Johansen	470	–	–	–	–	–	**470**	473
Merlin Swire	–	–	–	–	–	–	**–**	–
	470	–	–	–	–	–	**470**	473
Independent Non-Executive Directors:								
Robert Adams	481	–	–	–	–	–	**481**	478
Lincoln Leong	500	–	–	–	–	–	**500**	500
Peter Tse (from 31st December 2012)	345	–	–	–	–	–	**345**	1
David Tong	345	–	–	–	–	–	**345**	345
	1,671	–	–	–	–	–	**1,671**	1,324
2013 total	**9,815**	**7,149**	**2,789**	**996**	**165**	**443**	**21,357**	
2012 total	9,284	8,276	2,801	866	202	442		21,871
Executive Officers:								
Stephen Chadwick (from 1st August 2012)	1,638	323	974	275	–	1,373	**4,583**	1,646
Summit Chan	1,800	880	469	308	–	2	**3,459**	2,981
William Chau (from 1st September 2013)	641	17	295	34	–	–	**987**	–
John Chi (until 30th September 2011)	–	–	–	–	–	–	**–**	280
Patrick Healy (until 1st August 2012)	–	714	–	–	440	–	**1,154**	4,670
Ronald Lam (from 1st July 2013)	807	–	257	–	–	–	**1,064**	–
Kenny Tang	2,197	1,170	654	376	–	1	**4,398**	4,320
2013 total	**7,083**	**3,104**	**2,649**	**993**	**440**	**1,376**	**15,645**	
2012 total	5,213	3,394	1,754	1,294	915	1,327		13,897

Notes:

a. *Annual Directors' fees are determined by the Board and for 2013 comprised Director's fee of HK$345,000 (2012: HK$345,000), fee for members serving on Audit Committee of HK$90,000 (2012: HK$90,000) and fee for members serving on Remuneration Committee of HK$35,000 (2012: HK$35,000) respectively. The fee for the Chairman of Audit Committee is HK$120,000 (2012: HK$120,000) and the fee for the Chairman of Remuneration Committee is HK$46,000 (2012: HK$46,000).*

b. *Bonuses are not yet approved for 2013. The amounts disclosed above are related to services as Executive Directors or Executive Officers for 2012 but paid and charged to the Group in 2013.*

7. Other net gains/(losses)

	Group 2013 HK$M	Group 2012 HK$M
Net foreign exchange gains/(losses)	**50**	(8)
Loss on disposal of property, plant and equipment	**(5)**	(1)
Amortisation of deferred income	**1**	1
Receipt of government subsidies	**41**	–
	87	(8)

8. Finance income and finance charges

Accounting Policy

Finance income is recognised on a time-proportion basis using the effective interest method.

Finance costs incurred are charged to the statement of profit or loss except for those finance 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 ceases when the assets are substantially ready for their intended use or sale.

	Group 2013 HK$M	Group 2012 HK$M
Finance income:		
Short-term deposits and bank balances	**18**	13
Loans due from joint venture companies	**3**	5
Finance charges:		
Bank loans	**(59)**	(35)
	(38)	(17)

9. Taxation

Accounting Policy

The tax expense comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Critical accounting estimates and judgements

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide 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 outcome becomes known.

	Group	
	2013	2012
	HK$M	HK$M (Restated)
Current taxation:		
Hong Kong profits tax	**32**	97
Overseas taxation	**50**	27
Under-provisions in prior years	**1**	10
	83	134
Deferred taxation (note 19):		
Increase in deferred tax assets	**(134)**	(34)
Increase in deferred tax liabilities	**84**	22
	33	122

Hong Kong profits tax is calculated at 16.5% (2012: 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 joint venture companies' tax charge of HK$84 million (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.

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	
	2013	2012
	HK$M	HK$M (Restated)
Profit before taxation	**729**	977
Calculated at a tax rate of 16.5% (2012: 16.5%)	**120**	161
Share of after-tax results of joint venture companies	**(83)**	(92)
Effect of different tax rates in other countries	**5**	(2)
Income not subject to tax	**(9)**	(6)
Expenses not deductible for tax purposes	**13**	3
Unused tax losses not recognised	**2**	13
Utilisation of previously unrecognised tax losses	**(17)**	–
Recognition of previously unrecognised tax losses	**(8)**	–
Under-provisions in prior years	**1**	10
Effect of change in tax rates	**(28)**	28
Deferred tax assets written off	**8**	17
Temporary differences not recognised	**10**	–
Recognition of previously unrecognised temporary differences	**6**	(17)
Others	**13**	7
Tax charge	**33**	122

10. Profit attributable to the Company's shareholders

Of the profit attributable to the Company's shareholders, HK$496 million (2012: HK$760 million, as restated) is dealt with in the financial statements of the Company.

11. Dividends

Accounting Policy

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Board of Directors, where appropriate.

	Company	
	2013	2012
	HK$M	HK$M
First interim dividend paid on 17th September 2013 of HK$0.80 per share (2012: HK$0.88 per share)	**133**	146
Second interim dividend declared on 11th March 2014 of HK$1.30 per share (2012: HK$2.00 per share)	**216**	333
	349	479

11. Dividends (continued)

The second interim dividend is not accounted for in 2013 because it had not been declared and approved at the reporting date. The actual amount payable in respect of 2013 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2014.

12. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$625 million (2012: HK$822 million, as restated) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2012: 166,324,850).

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

Accounting Policy

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. 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 consolidated statement of profit or loss during the financial period in which they are incurred.

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

Buildings and building facilities	2% to 10% per annum
Equipment, plant, machinery and tools	5% to 33% per annum
Motor vehicles	20% to 25% per annum
Rotable spares	5% per annum
Assets under construction	Nil
Leasehold land and land use rights	Over the lease term

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

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other net gains/(losses)" in the statement of profit or loss.

Critical accounting estimates and judgements

At each period-end date or whenever a change in circumstances occurs, both internal and external sources of information are considered to assess whether there is an indication that assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated using fair value less costs to sell and/or value in use calculations as appropriate. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the statement of profit or loss.

During the year, the carrying amounts of certain building and building facilities and plant, machinery and tools have been written down by HK$38 million to their recoverable amount due to the fire incident in TALSCO in 2012.

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

	Group						
	Property, plant and equipment						
	Buildings and building facilities	Plant, machinery and tools	Vehicles, equipment and furniture	Rotable spares	Assets under construction	Total	Leasehold land and land use rights
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Cost							
At 1st January 2012	5,514	1,960	163	406	71	8,114	462
Translation differences	17	10	1	–	–	28	3
Additions and transfers	30	179	29	70	28	336	1
Disposals	–	(31)	(17)	(7)	–	(55)	–
At 31st December 2012	5,561	2,118	176	469	99	8,423	466
Translation differences	61	31	1	–	2	95	11
Change in composition of the Group	–	1	1	–	–	2	–
Additions and transfers	12	116	18	344	27	517	–
Disposals	–	(45)	(13)	(6)	–	(64)	–
At 31st December 2013	**5,634**	**2,221**	**183**	**807**	**128**	**8,973**	**477**
Accumulated depreciation, amortisation and impairment							
At 1st January 2012	1,795	1,147	119	160	–	3,221	92
Translation differences	6	5	1	–	–	12	1
Depreciation and amortisation charge for the year	213	148	20	20	–	401	11
Impairment charge for the year	11	34	–	13	–	58	–
Reversal of impairment charge	–	–	–	(11)	–	(11)	–
Disposals	–	(30)	(17)	(4)	–	(51)	–
At 31st December 2012	2,025	1,304	123	178	–	3,630	104
Translation differences	24	19	1	–	–	44	3
Change in composition of the Group	–	1	1	–	–	2	–
Depreciation and amortisation charge for the year	210	136	21	36	–	403	11
Impairment charge for the year	–	55	1	–	–	56	–
Reversal of impairment charge	(1)	(13)	–	–	–	(14)	–
Disposals	–	(42)	(13)	(2)	–	(57)	–
At 31st December 2013	**2,258**	**1,460**	**134**	**212**	**–**	**4,064**	**118**
Net book value							
At 31st December 2013	**3,376**	**761**	**49**	**595**	**128**	**4,909**	**359**
At 31st December 2012	3,536	814	53	291	99	4,793	362

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

	Company						
	Property, plant and equipment						
	Buildings and building facilities	Plant, machinery and tools	Vehicles, equipment and furniture	Rotable spares	Assets under construction	Total	Leasehold land
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Cost							
At 1st January 2012	3,053	686	90	406	17	4,252	21
Additions and transfers	24	52	15	50	–	141	–
Disposals	–	(18)	(9)	(373)	–	(400)	–
At 31st December 2012	3,077	720	96	83	17	3,993	21
Additions and transfers	8	38	10	–	–	56	–
Disposals	–	(3)	(6)	(1)	–	(10)	–
At 31st December 2013	**3,085**	**755**	**100**	**82**	**17**	**4,039**	**21**
Accumulated depreciation, amortisation and impairment							
At 1st January 2012	1,023	540	69	160	–	1,792	6
Depreciation and amortisation charge for the year	115	48	10	17	–	190	–
Impairment charge for the year	–	–	–	13	–	13	–
Reversal of impairment charge	–	–	–	(11)	–	(11)	–
Disposals	–	(17)	(8)	(96)	–	(121)	–
At 31st December 2012	1,138	571	71	83	–	1,863	6
Depreciation and amortisation charge for the year	116	37	11	–	–	164	1
Disposals	–	(3)	(6)	(1)	–	(10)	–
At 31st December 2013	**1,254**	**605**	**76**	**82**	**–**	**2,017**	**7**
Net book value							
At 31st December 2013	**1,831**	**150**	**24**	**–**	**17**	**2,022**	**14**
At 31st December 2012	1,939	149	25	–	17	2,130	15

At 31st December 2013 and 2012, none of the Group's and Company's property, plant and equipment was pledged as security for the Group's and Company's loans.

Assets under construction mainly relate to plant and machinery not yet ready for use.

Of the leasehold land and land use rights of HK$359 million (2012: HK$362 million), HK$14 million (2012: HK$15 million) relates to the net book value of leasehold land held in Hong Kong by the Company and HK$345 million (2012: HK$347 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

Accounting Policy

(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 exchange rates. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing, which is performed annually. 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 maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the acquisition and development 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 lives (five to ten 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.

(d) Development costs
Costs that are directly associated with development of an identifiable model controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the development staff costs and cost of raw materials consumed. Development costs are amortised over their estimated useful life of ten years.

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

14. Intangible assets (continued)

	Group				Company
	Goodwill	Technical licences	Others	Total	Others
	HK$M	HK$M	HK$M	HK$M	HK$M
Cost					
At 1st January 2012	31	536	52	619	10
Translation differences	–	(1)	–	(1)	–
At 31st December 2012	31	535	52	618	10
Translation differences	–	–	1	1	–
Additions and transfers	–	–	6	6	4
At 31st December 2013	**31**	**535**	**59**	**625**	**14**
Accumulated amortisation					
At 1st January 2012	–	44	15	59	10
Amortisation charge for the year	–	27	4	31	–
At 31st December 2012	–	71	19	90	10
Amortisation charge for the year	–	27	5	32	1
At 31st December 2013	**–**	**98**	**24**	**122**	**11**
Net book value					
At 31st December 2013	**31**	**437**	**35**	**503**	**3**
At 31st December 2012	31	464	33	528	–

Impairment test of goodwill

Critical accounting estimates and judgements

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.

Goodwill all relates to TEXL which is considered to be a stand-alone cash-generating unit ("CGU") of the Group as well as an operating segment in its own right. The recoverable amount of this CGU has been determined on a value in use basis. The key assumptions for the recoverable value of this CGU are the growth rate and discount rate used. The discount rate of 8% (2012: 8%) is based on the Group's weighted average cost of capital, adjusted for country specific risk relating to this CGU. The valuation uses cash flow forecasts based on detailed financial budgets prepared by management covering a ten year period. A ten year forecast is considered appropriate as this takes into account the expectation of significant growth in the business. An assumption of no growth in cash flows after year ten is made.

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

15. Subsidiary companies

Accounting Policy

Subsidiary companies are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Investments in subsidiary companies in the Company's standalone financial statements are stated at cost less provision for any impairment losses. Income from subsidiary companies is accounted for on the basis of dividends received and receivable.

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

	Company	
	2013	2012
	HK$M	HK$M
Unlisted shares at cost	**1,260**	1,157

The principal subsidiary companies are shown on page 114.

A loan due from a subsidiary company of HK$210 million (2012: HK$210 million) is unsecured and interest free (2012: same). The loan is non-current and has no fixed terms of repayment.

An interest-bearing advance to a subsidiary company is included in the trade and other receivables.

16. Joint venture companies

Accounting Policy

Joint venture 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 has rights to the net assets of those companies.

In the Group's consolidated statement of financial position, its investments in joint venture companies are accounted for using the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in joint venture companies over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition represents goodwill. The Group's investments in joint venture companies include goodwill identified on acquisitions, net of any accumulated impairment losses.

16. Joint venture companies (continued)

Accounting Policy (continued)

The Group's share of its joint venture companies' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, 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 joint venture company is reduced to nil, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture company.

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

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

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

	Group					
	HAESL		Others		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M (Restated)	**HK$M**	HK$M	**HK$M**	HK$M (Restated)
At 1st January						
as originally stated	**859**	801	**312**	299	**1,171**	1,100
adjustment on adoption of HKAS19 revised	**(15)**	(14)	**–**	–	**(15)**	(14)
as restated	**844**	787	**312**	299	**1,156**	1,086
Translation differences	**–**	(2)	**10**	3	**10**	1
Acquisition of a joint venture company	**–**	–	**–**	7	**–**	7
Disposal of a joint venture company	**–**	–	**(17)**	–	**(17)**	–
Share of profit	**465**	527	**36**	33	**501**	560
Share of other comprehensive income	**18**	6	**–**	–	**18**	6
Dividends received from joint venture companies	**(426)**	(474)	**(29)**	(30)	**(455)**	(504)
At 31st December	**901**	844	**312**	312	**1,213**	1,156

At 31st December 2013, no loans are due from joint venture companies to the Group or Company (2012: Loans due to the Group of HK$89 million were included in trade and other receivables at interest rates of 4.58% and 6.16% per annum which were unsecured).

16. Joint venture companies (continued)

The principal joint venture companies are shown on page 114.

The Group has one individually material joint venture company, HAESL, in which the Group has a 45% equity interest. HAESL is engaged in commercial aero engine overhaul services.

Set out below are the summarised financial information for HAESL which is accounted for using the equity method. HAESL is a private company incorporated in Hong Kong and there is no quoted market price available for its shares.

Summarised statement of comprehensive income

	2013 HK$M	2012 HK$M (Restated)
Turnover	**10,955**	12,118
Depreciation and amortisation	**(95)**	(88)
Other operating expenses	**(9,882)**	(10,871)
Operating profit	**978**	1,159
Finance charges	**(5)**	(4)
Share of after-tax results of a joint venture company	**222**	208
Profit before taxation	**1,195**	1,363
Taxation	**(161)**	(191)
Profit for the year	**1,034**	1,172
Other comprehensive income	**40**	14
Total comprehensive income	**1,074**	1,186
Dividends received from the joint venture company	**426**	474

Summarised statement of financial position

	At 31st December 2013 HK$M	At 31st December 2012 HK$M (Restated)
Non-current assets	**1,295**	1,271
Current assets		
Cash and cash equivalents	**61**	87
Other current assets	**2,786**	2,488
Total current assets	**2,847**	2,575
Current liabilities		
Financial liabilities (excluding trade payables)	**–**	77
Other current liabilities (including trade payables)	**1,700**	1,511
Total current liabilities	**1,700**	1,588
Non-current liabilities		
Financial liabilities	**349**	300
Other non-current liabilities	**91**	83
Total non-current liabilities	**440**	383
Net assets	**2,002**	1,875

16. Joint venture companies (continued)

Reconciliation of the summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture company.

	2013	2012
	HK$M	HK$M (Restated)
Net assets		
At 1st January		
as originally stated	**1,908**	1,779
adjustment on adoption of HKAS19 revised	**(33)**	(31)
as restated	**1,875**	1,748
Translation differences	**–**	(5)
Profit for the year	**1,034**	1,172
Other comprehensive income	**40**	14
Dividends paid	**(947)**	(1,054)
At 31st December	**2,002**	1,875
Carrying value of 45% interest in the joint venture company	**901**	844

Note: The comparatives to the summarised financial information for HAESL is restated for the Group's adoption of HKAS19 revised, as described in Principal Accounting Policies.

17. Financial instruments by category

Accounting Policy

Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, derivatives used for hedging, available-for-sale, loans and receivables and amortised cost. The classification depends on the purpose of the financial instrument. The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) At fair value through profit or loss
A financial instrument is classified within this category if the intention is to settle it in the short-term or if it is designated as at fair value through profit or loss by management. Derivatives are included within this category unless they are designated as hedges. Put options over non-controlling interests in subsidiary companies are measured at fair value through profit and loss. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the period-end date.

(b) Derivatives used for hedging
Derivative instruments are classified within this category if they qualify for hedge accounting.

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

17. Financial instruments by category (continued)

Accounting Policy (continued)

Classification (continued)

(d) 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.

(e) Amortised cost

The amortised cost category comprises instruments that are non-derivative financial liabilities with fixed or determinable payments and fixed maturities. They are included in non-current liabilities, except for maturities less than 12 months after the period-end date where these are classified as current liabilities.

Recognition and measurement

Purchases and sales of financial instruments are recognised on their trade-date – the date on which the Group contracts with the purchaser or seller. Financial instruments are initially recognised at fair value. Transaction costs are included for all financial instruments not carried at fair value through profit or loss. Financial instruments are derecognised when the rights to receive or obligations to pay cash have expired or have been transferred and the Group has transferred substantially all risks and rewards.

Financial instruments classified as at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value are included in the statement of profit or loss in the period in which they arise. Derivatives used for hedging are subsequently carried at fair value. Accounting for the realised and unrealised gains and losses arising from changes in the fair value of derivatives are set out in Note 20.

Financial assets classified as available-for-sale are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income. When available-for-sale assets are sold or impaired, the accumulated fair value adjustments are included in the statement of profit or loss as gains and losses from investments.

Financial instruments classified as loans and receivables and amortised cost are subsequently measured using the effective interest method.

The Group assesses at each period-end date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably measured.

17. Financial instruments by category (continued)

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

	Group			Company
	Loans and receivables	At fair value through profit or loss	Total	Loans and receivables
	HK$M	**HK$M**	**HK$M**	**HK$M**
At 31st December 2013				
Assets				
Derivative financial instruments	**–**	**27**	**27**	**–**
Trade and other receivables	**2,045**	**–**	**2,045**	**767**
Bank balances and short-term deposits	**2,364**	**–**	**2,364**	**1,475**
Total	**4,409**	**27**	**4,436**	**2,242**

	At fair value through profit or loss	Amortised cost	Total	Amortised cost
	HK$M	**HK$M**	**HK$M**	**HK$M**
At 31st December 2013				
Liabilities				
Trade and other payables	**–**	**617**	**617**	**156**
Advance from a related party	**–**	**90**	**90**	**–**
Put option over a non-controlling interest in a subsidiary company	**72**	**–**	**72**	**–**
Borrowings	**–**	**2,557**	**2,557**	**938**
Total	**72**	**3,264**	**3,336**	**1,094**

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

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

18. Retirement benefits

Accounting Policy

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of profit or loss so as to spread the regular cost over the service lives of employees.

The asset or liability recognised on the statement of financial position is the present value of the cost of providing these benefits (the defined benefit obligation) less the fair value of the plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries and is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds. The plan assets are valued on a bid price basis.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the statement of profit or loss.

For defined contribution schemes, the Group's contributions are charged to the statement of profit or loss in the period to which the contributions relate.

The Group has implemented the revised HKAS19: Employee Benefits (effective from 1st January 2013), which requires retrospective application. As a result, the 2012 full-year comparative results have been restated from those in the 2012 Annual Report. Details are provided on pages 115 and 116.

Critical accounting estimates and judgements

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

(a) Overall

Staff employed by the Company before 1st December 2000 were offered a choice between Hong Kong's Mandatory Provident Fund ("MPF") and the defined benefits retirement schemes as described below. Since 1st December 2000, all new staff employed, unless specially approved by the Company, have been enrolled in the MPF scheme. This scheme requires both the Company and staff to contribute 5% of the staff's relevant income (capped at HK$1,000 per month until 31st May 2012; HK$1,250 per month effective from 1st June 2012). Staff may elect to contribute more than the minimum as a voluntary contribution.

The Hong Kong Aircraft Engineering Company Limited Local Staff Retirement Benefits Scheme ("Local Scheme") provides resignation and retirement benefits to its members upon their cessation of service with the Company. The Company meets the full cost of all benefits due by the Local Scheme to members, who are not required to contribute to the Scheme.

Similarly, the Hong Kong Aircraft Engineering Company Retirement Scheme ("Expatriate Scheme") is for staff employed on expatriate terms. Both members and the Company contribute to the Expatriate Scheme.

The subsidiary companies operating in Mainland China 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.

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.

18. Retirement benefits (continued)

(a) Overall (continued)

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an on-going basis, as computed by reference to actuarial valuations. 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 schemes are valued annually by qualified actuaries for funding purposes under the provisions of Hong Kong's Occupational Retirement Schemes Ordinance.

For the year ended 31st December 2013, the funding level was 119% (2012: 112%) of the accrued liabilities on an ongoing basis. The Group expects to make contributions of HK$38 million to Local Scheme and nil to Expatriate Scheme in 2014.

For the year ended 31st December 2013, the HKAS 19 disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2012, which were updated at 31st December 2013 by Cannon Trustees Limited, the main administration manager of the Company's defined benefit schemes. For the year ended 31st December 2012, the HKAS 19 disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2012.

The retirement benefit expense recognised in the statement of profit or loss was as follows:

	Group	
	2013	2012
	HK$M	HK$M (Restated)
Local Scheme	**89**	87
Expatriate Scheme	**1**	1
MPF, statutory and other defined contribution schemes	**139**	104
	229	192

(b) Defined benefits retirement schemes

Net expenses recognised in the statement of profit or loss are as follows:

	Group					
	Local Scheme		Expatriate Scheme		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M (Restated)	**HK$M**	HK$M (Restated)	**HK$M**	HK$M (Restated)
Current service cost	**93**	91	**3**	4	**96**	95
Net interest income	**(4)**	(4)	**(2)**	(3)	**(6)**	(7)
Total	**89**	87	**1**	1	**90**	88

The above net expenses are included in staff remuneration and benefits in the consolidated statement of profit or loss.

The actual returns on plan assets are as follows:

	Group					
	Local Scheme		Expatriate Scheme		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Actual return on plan assets – gain	**115**	288	**6**	20	**121**	308

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M (Restated)	**HK$M**	HK$M (Restated)	**HK$M**	HK$M (Restated)
At 31st December:						
Fair value of plan assets	**2,452**	2,426	**164**	175	**2,616**	2,601
Present value of obligations	**(2,182)**	(2,348)	**(101)**	(115)	**(2,283)**	(2,463)
Net retirement benefit assets	**270**	78	**63**	60	**333**	138

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M (Restated)	**HK$M**	HK$M (Restated)	**HK$M**	HK$M (Restated)
Assets at 1st January	**78**	85	**60**	55	**138**	140
Increase due to:						
Total expense – as shown above	**(89)**	(87)	**(1)**	(1)	**(90)**	(88)
Actuarial gains recognised in other comprehensive income	**242**	29	**4**	6	**246**	35
Contributions paid	**39**	51	**–**	–	**39**	51
Assets at 31st December	**270**	78	**63**	60	**333**	138

The significant actuarial assumptions used are as follows:

	Group and Company			
	Local Scheme		Expatriate Scheme	
	2013	2012	**2013**	2012
Discount rate	**4.27%**	3.32%	**4.27%**	3.32%
Expected rate of future salary increases	**4.00%**	3.85%	**4.00%**	3.25%

The sensitivity of the defined benefit obligation to changes in actuarial assumptions is:

	Group and Company					
			Impact on defined benefit obligation			
	Change in assumption		Increase in assumption		Decrease in assumption	
	2013	2012	**2013**	2012	**2013**	2012
			HK$M	HK$M	**HK$M**	HK$M
Discount rate	**0.5%**	0.5%	**(111)**	(130)	**116**	138
Expected rate of future salary increases	**0.5%**	0.5%	**116**	137	**(111)**	(130)

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the retirement benefit liability recognised within the statement of financial position.

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M (Restated)	**HK$M**	HK$M (Restated)	**HK$M**	HK$M (Restated)
At 1st January	**2,426**	2,292	**175**	167	**2,601**	2,459
Transfer of members	**3**	–	**–**	–	**3**	–
Employer contributions	**39**	51	**–**	–	**39**	51
Employee contributions	**–**	–	**2**	2	**2**	2
Interest income	**79**	89	**6**	7	**85**	96
Return on plan assets, excluding interest income	**36**	199	**–**	13	**36**	212
Benefits paid	**(131)**	(205)	**(19)**	(14)	**(150)**	(219)
At 31st December	**2,452**	2,426	**164**	175	**2,616**	2,601

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,348**	2,207	**115**	112	**2,463**	2,319
Transfer of members	**3**	–	**–**	–	**3**	–
Employee contributions	**–**	–	**2**	2	**2**	2
Current service cost	**93**	91	**3**	4	**96**	95
Interest expense	**75**	85	**4**	4	**79**	89
Benefits paid	**(131)**	(205)	**(19)**	(14)	**(150)**	(219)
Experience losses	**16**	41	**–**	6	**16**	47
Actuarial (gains)/losses from changes in financial assumptions	**(222)**	129	**(4)**	1	**(226)**	130
At 31st December	**2,182**	2,348	**101**	115	**2,283**	2,463

The weighted average duration of the defined benefit obligations is 9.98 years (2012: 10.96 years).

There were no plan amendments, curtailments and settlements during the year.

The plan assets are invested in the Swire Group Unitised Trust ("the Trust"). The Trust has three sub-funds in which the assets are invested in accordance with separate and distinct investment policies and objectives. The Trust and sub-funds are overseen by an investment committee, which meets between four and six times a year.

The strategic investment policy and asset-liability model of the Trust can be summarised as follows:

- A strategic asset mix comprising 30% to 40% equities and 40% to 70% bonds.

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The management of the assets within the sub-funds is delegated by the investment committee to a number of reputable investment managers. The plan assets comprise:

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Equities						
Asia Pacific	**284**	279	**14**	16	**298**	295
Europe	**152**	149	**8**	8	**160**	157
North America	**283**	266	**14**	15	**297**	281
Emerging markets	**296**	269	**15**	15	**311**	284
Bonds						
Global	**1,058**	1,252	**82**	104	**1,140**	1,356
Emerging markets	**330**	164	**25**	13	**355**	177
Cash	**49**	47	**6**	4	**55**	51
	2,452	2,426	**164**	175	**2,616**	2,601

Note: At 31st December 2013, the prices of 100% of equity and 79.9% of bonds were quoted on active markets (31st December 2012: 100% and 90.6% respectively). The remainder of prices were not quoted on active markets.

The most significant risk facing the defined benefit schemes of the Group is market risk. The risk embodies the potential for loss and gains and includes price risk, interest rate risk and currency risk as well as factors specific to an individual investment or its issuer or risk specific to a certain market. Market risk is managed principally through diversification of investments by the investment managers appointed. Investment managers are governed by agreements that stipulate the performance objective of the investments, which is referenced to a recognised benchmark and the predicted tracking error around this benchmark. The investment committee monitors the overall market risk position on a quarterly basis.

19. Deferred taxation

Accounting Policy

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 substantially 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 joint venture 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.

The movement on deferred income tax assets and liabilities (prior to offsetting balances within the same tax jurisdiction) during the year is as follows:

	Group		
	Provisions	Tax losses	Total
	HK$M	HK$M	HK$M
Deferred tax assets			
At 1st January 2012	78	16	94
Translation differences	1	1	2
(Charged)/credited to statement of profit or loss	(7)	41	34
At 31st December 2012	72	58	130
Translation differences	1	1	2
Credited to statement of profit or loss	63	71	134
At 31st December 2013	**136**	**130**	**266**

	Company
	Provisions
	HK$M
Deferred tax assets	
At 1st January 2012	24
Credited to statement of profit or loss	2
At 31st December 2012	26
Credited to statement of profit or loss	9
At 31st December 2013	**35**

19. Deferred taxation (continued)

	Group			
	Accelerated tax depreciation	Retirement benefit assets	Others	Total
	HK$M	HK$M	HK$M	HK$M
Deferred tax liabilities				
At 1st January 2012				
as originally stated	251	49	61	361
adjustment on adoption of HKAS19 revised	–	(30)	–	(30)
as restated	251	19	61	331
(Credited)/charged to statement of profit or loss, as restated	(2)	(4)	28	22
Charged to other comprehensive income, as restated	–	6	–	6
At 31st December 2012, as restated	249	21	89	359
Translation differences	–	–	3	3
Charged/(credited) to statement of profit or loss	36	(6)	54	84
Charged to other comprehensive income	–	40	–	40
At 31st December 2013	**285**	**55**	**146**	**486**

	Company		
	Accelerated tax depreciation	Retirement benefit assets	Total
	HK$M	HK$M	HK$M
Deferred tax liabilities			
At 1st January 2012			
as originally stated	251	49	300
adjustment on adoption of HKAS19 revised	–	(30)	(30)
as restated	251	19	270
Credited to statement of profit or loss, as restated	(34)	(4)	(38)
Charged to other comprehensive income, as restated	–	6	6
At 31st December 2012, as restated	217	21	238
Credited to statement of profit or loss	(5)	(6)	(11)
Charged to other comprehensive income	–	40	40
At 31st December 2013	**212**	**55**	**267**

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% (2012: 16.5%). Overseas deferred tax is calculated using tax rates prevailing in the respective jurisdictions.

19. Deferred taxation (continued)

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$244 million (2012: HK$476 million) to carry forward against future taxable income. These amounts are analysed as follows:

	Group	
	2013	2012
	HK$M	HK$M
No expiry date	**51**	46
Expiring in 2013	**–**	21
Expiring in 2014	**–**	34
Expiring in 2015	**59**	76
Expiring in 2016	**78**	103
Expiring in 2017	**56**	196
	244	476

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

	Group	
	2013	2012
	HK$M	HK$M
Deferred tax assets:		
To be recovered after more than 12 months	**61**	32
To be recovered within 12 months	**22**	14
	83	46

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M (Restated)	**HK$M**	HK$M (Restated)
Deferred tax liabilities:				
To be settled after more than 12 months	**313**	286	**243**	224
To be settled within 12 months	**(10)**	(11)	**(11)**	(12)
	303	275	**232**	212

20. Derivative financial instruments

Accounting Policy

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: (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (b) hedges of highly probable forecast transactions (cash flow hedges); or (c) 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 statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised through the statement of profit or loss over the period to maturity.

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

Amounts accumulated in equity are recycled in the statement of profit or loss in the periods when the hedged item will affect the profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to interest rate swaps hedging variable rate borrowings, whether effective or ineffective, is recognised in the statement of profit or loss within finance charges. The gain or loss relating to forward foreign exchange contracts, whether effective or ineffective, is recognised in the statement of profit or loss within other net gains/(losses). 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 statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

(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 statement of profit or loss.

Gains and losses accumulated in equity are included in the statement of profit or loss 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 statement of profit or loss.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the period-end date.

20. Derivative financial instruments (continued)

	Group			
	Assets		Liabilities	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts				
– not qualifying as hedges	**27**	5	**–**	9
Total	**27**	5	**–**	9
Less non-current portion				
Forward foreign exchange contracts				
– not qualifying as hedges	**11**	2	**–**	8
	11	2	**–**	8
Current portion	**16**	3	**–**	1

The fair value of a derivative is classified as a non-current asset or liability if the remaining maturity of the derivative is more than 12 months and, as a current asset or liability, if the maturity of the derivative is not more than 12 months. These values are level 2 valuations.

Forward foreign exchange contracts

The total notional principal amount of the outstanding forward foreign exchange contracts at 31st December 2013 was HK$651 million (2012: HK$1,010 million).

Interest rate swaps

The total notional principal amount of the outstanding interest rate swap contracts at 31st December 2013 was HK$150 million (2012: HK$150 million).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

21. Contingencies

Accounting Policy

Financial guarantees are initially recognised in the accounts at fair value on the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise the fee income earned in the statement of profit or loss on a straight-line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the period-end date. Any increase in the liability relating to guarantees is taken to the statement of profit or loss.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

21. Contingencies (continued)

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Guarantees provided in respect of loans of:				
Subsidiary companies	**–**	–	**659**	710
Joint venture companies	**66**	68	**–**	50
	66	68	**659**	760

The liabilities guaranteed will mature at various dates from 2014 to 2016.

The fair value of the above guarantees are not material. They have therefore not been recognised in the statement of financial position.

22. Stocks

Accounting Policy

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.

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Carrying amounts at net realisable value:				
Stocks	**170**	181	**163**	175

The remaining balances are carried at cost.

23. Work in progress

Accounting Policy

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".

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
The aggregate costs incurred and recognised profits to date	**223**	287	**116**	60
Less: Progress billings	**93**	74	**49**	1
	130	213	**67**	59

24. Trade and other receivables

Accounting Policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Trade and other receivables in the statement of financial position are stated net of such provisions.

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

The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss. 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 statement of profit or loss.

Critical accounting estimates and judgements

In view of the fire which broke out at TALSCO's premises in November 2012, 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 consolidated statement of profit or loss in future periods.

		Group		Company	
		2013	2012	**2013**	2012
		HK$M	HK$M	**HK$M**	HK$M
Trade receivables –	in HK dollars	**28**	28	**28**	28
	in US dollars	**733**	320	**100**	185
	in Renminbi	**71**	110	**–**	–
	in other currencies	**2**	8	**–**	–
		834	466	**128**	213
Less: Provision for impairment of receivables		**(59)**	(21)	**(14)**	(7)
		775	445	**114**	206
Amounts due from subsidiary companies		**–**	–	**166**	157
Amounts due from joint venture companies		**15**	137	**12**	15
Amounts due from related parties		**607**	431	**105**	153
Interest-bearing advance to a subsidiary company at 2.74%		**–**	–	**3**	–
Other receivables and prepayments		**648**	484	**157**	209
		2,045	1,497	**557**	740

The interest-bearing advance to a subsidiary company is unsecured and has no fixed terms of repayment.

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

24. Trade and other receivables (continued)

The analysis of the age of trade receivables at year-end (based on the invoice date) is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Under three months	**690**	411	**112**	201
Between three and six months	**33**	17	**1**	1
Over six months	**111**	38	**15**	11
	834	466	**128**	213

At 31st December 2013, the Group and the Company had trade debtors of HK$233 million (2012: HK$219 million) and HK$46 million (2012: HK$136 million) respectively which were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The period of time since the due date of these trade debtors is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Under three months	**159**	186	**45**	131
Between three and six months	**43**	19	**–**	5
Over six months	**31**	14	**1**	–
	233	219	**46**	136

At 31st December 2013, trade receivables of the Group of HK$59 million (2012: HK$21 million) and of the Company of HK$14 million (2012: HK$7 million) were 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	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Three to six months overdue	**–**	1	**–**	–
Over six months overdue	**59**	20	**14**	7
	59	21	**14**	7

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
At 1st January	**21**	5	**7**	5
Provision for impairment of receivables	**38**	16	**7**	2
At 31st December	**59**	21	**14**	7

The creation and release of the provision for impaired receivables has been included in cost of direct material and job expenses in the statement of profit or loss. 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 carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

25. Trade and other payables

Accounting Policy

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

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.

Critical accounting estimates and judgements

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.

In 2013, additional provisions of HK$35 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.

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Trade payables	**289**	116	**16**	22
Amounts due to subsidiary companies	**–**	–	**10**	18
Amounts due to joint venture companies	**2**	14	**1**	10
Amounts due to related parties	**52**	25	**26**	25
Accrued capital expenditure	**38**	74	**3**	8
Accruals	**1,193**	958	**521**	475
Other payables	**301**	228	**106**	119
	1,875	1,415	**683**	677

25. Trade and other payables (continued)

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Under three months	**282**	113	**14**	22
Between three and six months	**4**	1	**1**	–
Over six months	**3**	2	**1**	–
	289	116	**16**	22

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

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

26. Borrowings

Accounting Policy

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

26. Borrowings (continued)

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Short–term loans – in HK dollars	**413**	120	**–**	–
– in US dollars	**116**	35	**–**	–
– in other currency	**4**	4	**–**	–
	533	159	**–**	–
Long–term loans at cost				
– in HK dollars	**1,044**	548	**938**	442
– in US dollars	**980**	977	**–**	–
	2,024	1,525	**938**	442
Less: amounts due within one year included under current liabilities				
– in HK dollars	**256**	–	**150**	–
– in US dollars	**113**	103	**–**	–
	1,655	1,422	**788**	442

All the loans are unsecured. The carrying amounts approximate their fair values because all the loans are on a floating rate basis at 31st December 2013.

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Bank loans:				
Repayable within one year	**369**	103	**150**	–
Repayable between one and two years	**892**	359	**493**	148
Repayable between two and five years	**763**	1,063	**295**	294
	2,024	1,525	**938**	442

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
6 months or less	**2,407**	1,536	**788**	294

The Group's and Company's weighted average effective interest rates per annum at 31st December 2013 are 1.78% (2012: 1.84%) and 1.72% (2012: 1.63%) respectively.

27. Advance from a related party

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

28. Share capital

Accounting Policy

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.

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

During the year, the Company did not purchase, sell or redeem any of its shares.

29. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Group										
At 1st January										
as originally stated	**5,514**	5,744	**19**	19	**157**	148	**1**	(2)	**5,691**	5,909
adjustment on adoption of HKAS19 revised	**(186)**	(164)	**–**	–	**–**	–	**–**	–	**(186)**	(164)
as restated	**5,328**	5,580	**19**	19	**157**	148	**1**	(2)	**5,505**	5,745
Profit for the year	**625**	822	**–**	–	**–**	–	**–**	–	**625**	822
Other comprehensive income										
Defined benefit retirement schemes										
– actuarial gains recognised	**246**	35	**–**	–	**–**	–	**–**	–	**246**	35
– deferred tax	**(40)**	(6)	**–**	–	**–**	–	**–**	–	**(40)**	(6)
Share of other comprehensive income of joint venture companies	**20**	3	**–**	–	**–**	–	**(2)**	3	**18**	6
Net translation differences on foreign operations	**–**	–	**–**	–	**53**	9	**–**	–	**53**	9
Total comprehensive income for the year	**851**	854	**–**	–	**53**	9	**(2)**	3	**902**	866
Previous year's second interim dividend paid	**(333)**	(316)	**–**	–	**–**	–	**–**	–	**(333)**	(316)
Previous year's special dividend paid	**–**	(566)	**–**	–	**–**	–	**–**	–	**–**	(566)
Current year's first interim dividend paid	**(133)**	(146)	**–**	–	**–**	–	**–**	–	**(133)**	(146)
Change in composition of the Group (note 35)	**(10)**	(6)	**–**	–	**–**	–	**–**	–	**(10)**	(6)
Recognition of a put option in respect of a non-controlling interest in a subsidiary company	**–**	(72)	**–**	–	**–**	–	**–**	–	**–**	(72)
At 31st December	**5,703**	5,328	**19**	19	**210**	157	**(1)**	1	**5,931**	5,505

29. Reserves (continued)

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Company										
At 1st January										
as originally stated	**4,081**	4,299	**19**	19	**–**	–	**–**	–	**4,100**	4,318
adjustment on adoption of HKAS19 revised	**(171)**	(150)	**–**	–	**–**	–	**–**	–	**(171)**	(150)
as restated	**3,910**	4,149	**19**	19	**–**	–	**–**	–	**3,929**	4,168
Profit for the year	**496**	760	**–**	–	**–**	–	**–**	–	**496**	760
Other comprehensive income										
Defined benefit retirement schemes										
– actuarial gains recognised	**246**	35	**–**	–	**–**	–	**–**	–	**246**	35
– deferred tax	**(40)**	(6)	**–**	–	**–**	–	**–**	–	**(40)**	(6)
Total comprehensive income for the year	**702**	789	**–**	–	**–**	–	**–**	–	**702**	789
Previous year's second interim dividend paid	**(333)**	(316)	**–**	–	**–**	–	**–**	–	**(333)**	(316)
Previous year's special dividend paid	**–**	(566)	**–**	–	**–**	–	**–**	–	**–**	(566)
Current year's first interim dividend paid	**(133)**	(146)	**–**	–	**–**	–	**–**	–	**(133)**	(146)
At 31st December	**4,146**	3,910	**19**	19	**–**	–	**–**	–	**4,165**	3,929

The Group and Company revenue reserves include HK$216 million (2012: HK$333 million) representing the second interim dividend declared for the year (note 11). Distributable reserves of the Group at 31st December 2013 amounted to HK$4,146 million (2012: HK$3,910 million, as restated).

30. Non-controlling interests

	Group	
	2013	2012
	HK$M	HK$M
At 1st January	**1,136**	1,015
Share of profit for the year	**71**	33
Share of net translation differences on foreign operations	**30**	9
Share of total comprehensive income	**101**	42
Acquisition of non-controlling interests in subsidiary companies	**18**	6
Dividends paid	**(31)**	(12)
Capital contribution from non-controlling interests	**5**	85
At 31st December	**1,229**	1,136

The Group has one subsidiary company that is material to the Group, being TAECO. TAECO is incorporated in Xiamen, Mainland China, and the Group has an equity interest of 58.55%. The remaining 41.45% is held by non-controlling interests.

Set out below are the summarised financial information for TAECO.

Summarised statement of comprehensive income

	TAECO	
	2013	2012
	HK$M	HK$M
Turnover	**1,870**	1,696
Profit before taxation	**186**	169
Taxation	**(25)**	(45)
Profit for the year	**161**	124
Other comprehensive income	**73**	21
Total comprehensive income	**234**	145
Total comprehensive income allocated to non-controlling interests	**97**	60
Dividends paid to non-controlling interests	**31**	6

Summarised statement of financial position

	TAECO	
	At 31st December	
	2013	2012
	HK$M	HK$M
Non-current assets	**2,054**	2,060
Current assets	**1,347**	1,132
Current liabilities	**766**	608
Non-current liabilities	**11**	136
Net assets	**2,624**	2,448

30. Non-controlling interests (continued)

Summarised cash flows

	TAECO	
	2013	2012
	HK$M	HK$M
Net cash generated from operating activities	**299**	220
Net cash generated from/(used in) investing activities	**39**	(108)
Net cash used in financing activities	**(69)**	(102)
Net increase in cash and cash equivalents	**269**	10
Cash and cash equivalents at 1st January	**427**	415
Currency adjustment	**19**	2
Cash and cash equivalents at 31st December	**715**	427

The information above is the amount before inter-company eliminations.

31. Receipt in advance

An advanced payment was received from Cathay Pacific Airways Limited in 2005 for storage service charges up to June 2018. At 31st December 2013, the current portion included in other payables under current liabilities is HK$11 million (2012: HK$10 million) while the non-current portion is HK$37 million (2012: HK$48 million).

32. Notes to the consolidated statement of cash flows

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

	Group	
	2013	2012
	HK$M	HK$M (Restated)
Operating profit	**266**	434
Depreciation, amortisation and impairment	**488**	490
Other items	**(7)**	1
Operating profit before working capital changes	**747**	925
Decrease in retirement benefit assets	**51**	37
Decrease/(increase) in stocks and work in progress	**57**	(52)
Increase in trade and other receivables in relation to operating activities	**(645)**	(459)
Increase in trade and other payables in relation to operating activities	**476**	342
Decrease in receipt in advance	**(11)**	(10)
(Increase)/decrease in derivative financial instruments	**(31)**	11
Increase in long-term prepayment	**(1)**	(12)
Increase in deferred income	**1**	10
Cash generated from operations	**644**	792

32. Notes to the consolidated statement of cash flows (continued)

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

Accounting Policy

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.

	Group	
	2013	2012
	HK$M	HK$M
Cash and cash equivalents	**2,341**	1,418
Short-term deposits maturing after more than three months	**23**	5
	2,364	1,423

The Group's and Company's weighted average effective interest rates per annum on deposits at 31st December 2013 are 1.37% (2012: 1.05%) and 0.93% (2012: 0.63%) respectively. The deposits have an average maturity of 63 days (2012: 52 days) for the Group and 58 days (2012: 58 days) for the Company.

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2013 and 31st December 2012 is the carrying value of the bank balances and short-term deposits disclosed above.

33. Capital commitments

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for in the financial statements	**3,194**	90	**158**	40
Authorised by Directors but not contracted for	**1,082**	392	**317**	25
	4,276	482	**475**	65
The Group's share of capital commitments of joint venture companies not included above:				
Contracted but not provided for in the financial statements	**38**	39		
Authorised by Directors but not contracted for	**354**	10		

Capital commitments mainly relate to the consideration in respect of the acquisition of TIMCO and the acquisition of rotable spares and other machinery and tools.

34. Lease commitments

Accounting Policy

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 under operating leases are recognised as expenses in the statement of profit or loss on a straight-line basis over the period of the lease.

At 31st December 2013, the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group and the Company were as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$M	HK$M	**HK$M**	HK$M
Land and buildings				
Not later than 1 year	**129**	129	**128**	126
Later than 1 year but not later than 5 years	**515**	503	**514**	503
Later than 5 years	**2,286**	2,368	**2,286**	2,368
	2,930	3,000	**2,928**	2,997

35. Transactions with non-controlling interests

On 28th October 2013, the Group completed an additional share capital injection of HK$74 million to TALSCO. After the capital injection, the Group's shareholding in TALSCO increased from 62.14% to 69.66%.

On 29th June 2012, the Group completed an additional share capital injection of HK$74 million to TALSCO. After the capital injection, the Group's shareholding in TALSCO increased from 55.86% to 62.14%.

The effect of changes in the ownership interest of TALSCO on the equity attributable to the Company's shareholders is summarised as follows:

	2013	2012
	HK$M	HK$M
Consideration paid for additional shareholding	**21**	13
Less: carrying amount of non-controlling interests acquired	**11**	7
Excess of consideration paid recognised within equity	**10**	6

The effect of these transactions with the non-controlling interests on the equity attributable to the Company's shareholders is as follows:

	2013	2012
	HK$M	HK$M (Restated)
Total comprehensive income attributable to the Company's shareholders	**902**	866
Changes in equity attributable to the Company's shareholders arising from the acquisition of additional interest in a subsidiary company	**(10)**	(6)
	892	860

36. Immediate and ultimate holding company

The immediate holding company is Swire Pacific Limited, a company incorporated in Hong Kong.

The ultimate holding company is John Swire & Sons Limited, a company incorporated in England and Wales.

37. Related party and continuing connected transactions

Accounting Policy

Related parties are individuals and companies, including subsidiary and joint venture 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.

The Group has a number of transactions with its related parties and connected persons. Details of the remuneration of key management are set out in note 6. All trading transactions are conducted in the normal course of business at prices and on terms similar to those charged to/by and contracted with other third party customers/suppliers of the Group. The aggregate transactions and balances which are material to the Group and which have not been disclosed elsewhere in the annual report are summarised below:

		Joint venture companies		Immediate holding company		Other related parties		Total	
	Notes	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
		HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Revenue from rendering of services	*a*	**42**	54	**–**	–	**2,691**	2,447	**2,733**	2,501
		42	54	**–**	–	**2,691**	2,447	**2,733**	2,501
Purchases of:									
Services from John Swire & Sons (H.K.) Limited under services agreement									
– Service fees payable during the year		**–**	–	**–**	–	**17**	25	**17**	25
– Expenses reimbursed at cost		**–**	–	**–**	–	**51**	59	**51**	59
Subtotal		**–**	–	**–**	–	**68**	84	**68**	84
– Share of administrative services		**–**	–	**–**	–	**4**	4	**4**	4
Total		**–**	–	**–**	–	**72**	88	**72**	88
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		**–**	–	**–**	–	**6**	6	**6**	6
Risk management service		**–**	–	**1**	3	**–**	–	**1**	3
Services from Cathay Pacific Airways Limited Group		**–**	–	**–**	–	**24**	28	**24**	28
Other services	*b*	**26**	22	**–**	–	**30**	17	**56**	39
		26	22	**1**	3	**132**	139	**159**	164

37. Related party and continuing connected transactions (continued)

Notes:

a. *Revenue from other related parties mainly came from the provision of aircraft maintenance service. Revenue from joint venture companies mainly came from the provision to HAESL of engine component repairs on a commercial arm's length basis and of certain administrative services charged at cost.*

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

c. *Amounts due from and due to joint venture companies and other related parties at 31st December 2013 are disclosed in notes 24 and 25 to the accounts.*

d. *Continuing connected transactions during 2013:*

The following transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

(a) *Cathay Pacific and HXITM*
Pursuant to the Framework Agreement dated 13th November 2013 with Cathay Pacific and HXITM, services (being maintenance and related services in respect of aircraft, aircraft engines and aircraft parts and components and including inventory technical management services and the secondment of personnel) are provided by the HAECO Group to the Cathay Pacific Group and vice versa and by HXITM to the HAECO Group and vice versa. Payment is made in cash within 30 days of receipt invoices. The term of the Framework Agreement is for 10 years ending on 31st December 2022.

Cathay Pacific is an associate of the Company's holding company Swire Pacific Limited and therefore a connected person of the Company under the Listing Rules. As Cathay Pacific, a connected person of HAECO at the listed company level, owns more than 10% of the voting rights in HXITM, HXITM is also a connected person of HAECO. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 13th November 2013 was published and a circular dated 10th December 2013 was sent to shareholders.

For the year ended 31st December 2013 and under the Framework Agreement, the amounts payable by the Cathay Pacific Group to the HAECO Group totalled HK$3,189 million, the amounts payable by the HAECO Group to the Cathay Pacific Group totalled HK$24 million, no amounts were payable by the HAECO Group to HXITM and the amounts payable by HXITM to the HAECO Group totalled HK$237 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 2014 to 31st December 2016 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% 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, 1st October 2010 and 14th November 2013 were published.

For the year ended 31st December 2013, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$17 million and expenses of HK$51 million were reimbursed at cost.

38. 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.

39. Event after the reporting period

On 6th February 2014, the Group acquired the entire issued share capital of TIMCO, a group of companies based in the United States of America, engaged in the provision of a broad spectrum of aircraft technical services including airframe, line and engine maintenance, cabin modification services, and interior products manufacturing.

Details of the purchase consideration, net assets acquired and goodwill are as follows:

	HK$M
Purchase consideration:	
Cash paid	**2,876**
Contingent consideration	**11**
	2,887

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

	Provisional fair value HK$M
Property, plant and equipment	**357**
Leasehold land and land use rights	**18**
Intangible assets	**811**
Stocks of aircraft parts	**327**
Work in progress	**114**
Cash and cash equivalents	**142**
Trade and other receivables	**395**
Trade and other payables	**(482)**
Borrowings	**(208)**
Deferred tax liabilities	**(15)**
Identifiable net assets acquired	**1,459**
Goodwill	**1,428**
	2,887

	HK$M
Purchase consideration settled in cash	**2,876**
Repayment of loans of TIMCO	**208**
Cash and cash equivalents acquired	**(142)**
Net cash outflow on acquisition	**2,942**

39. Event after the reporting period (continued)

The goodwill is attributable to TIMCO's highly skilled workforce, management expertise, and the synergies expected to be derived from enhanced services to a wider range of customers. The goodwill is not expected to be deductible for tax purposes.

The fair value of the acquired trade and other receivables was HK$395 million and included trade receivables with a fair value of HK$374 million. The contractual amount of the trade receivables due was HK$386 million, in respect of which a bad debt provision of HK$12 million has been made at the acquisition date.

Acquisition-related costs of HK$60 million have been recognised in the consolidated statement of profit or loss in 2013.

The contingent consideration requires the Group to pay, in cash, to the former owners of TIMCO an amount equal to 70% of the tax benefit arising on change in control payments made to certain members of senior management of TIMCO. The fair value of this contingent consideration arrangement is estimated at HK$11 million. This is a level 3 fair value measurement.

The acquired business did not contribute any revenue or net profit to the Group in 2013 as the acquisition was completed subsequent to 31st December 2013. If the acquisition had occurred on 1st January 2013, the consolidated revenue and consolidated net profit for the year ended 31st December 2013 would have been, on a pro-forma basis, HK$10,364 million and HK$724 million respectively.

40. Principal subsidiary and joint venture companies at 31st December 2013

	Place of incorporation and operation	Principal activities	Issued share capital	Owned directly	Owned by subsidiary and joint venture companies	Attributable to the Group
Subsidiary Companies:						
HAECO Cabin Solutions, LLC #	United States	Certification, engineering design and programme management for cabin completion and reconfiguration	Registered capital of US$10,000	90.01%	–	90.01%
HAECO Component Overhaul (Xiamen) Limited ~#	Xiamen	Aircraft component overhaul	Registered capital of US$18,600,000	100%	–	100%
HAECO ITM Limited	Hong Kong	Aircraft inventory technical management	Share capital of HK$100	70%	–	100%
Shanghai Taikoo Aircraft Engineering Services Company Limited *#+	Shanghai	Line maintenance	Registered capital of US$3,700,000	60%	15%	68.78%
Singapore HAECO Pte. Limited	Singapore	Line maintenance	Share capital of SGD1	100%	–	100%
Taikoo (Xiamen) Aircraft Engineering Company Limited *	Xiamen	Aircraft overhaul and maintenance	Registered capital of US$41,500,000	58.55%	–	58.55%
Taikoo (Xiamen) Landing Gear Services Company Limited *	Xiamen	Landing gear repair and overhaul	Registered capital of US$36,890,000	63.80%	10%	69.66%
Taikoo Engine Services (Xiamen) Company Limited *	Xiamen	Commercial aero engine overhaul services	Registered capital of US$113,000,000	75.01%	10%	80.87%
Joint Venture Companies:						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited *	Jinjiang	Tyre services for commercial aircraft	Registered capital of US$7,500,000	28%	9%	33.27%
Goodrich Asia-Pacific Limited	Hong Kong	Carbon brake machining and wheel hub overhaul	Share capital of HK$9,200,000	49%	–	49%
Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited *#	Xiamen	Aircraft fuel control, flight control and electrical component repairs	Registered capital of US$5,000,000	–	35%	20.49%
Honeywell TAECO Aerospace (Xiamen) Company Limited *	Xiamen	Aircraft hydraulic, pneumatic, avionic component and other aviation equipment repairs	Registered capital of US$5,000,000	25%	10%	30.86%
Hong Kong Aero Engine Services Limited	Hong Kong	Commercial aero engine overhaul services	Share capital of HK$200	45%	–	45%
Singapore Aero Engine Services Pte. Limited #	Singapore	Commercial aero engine overhaul services	Share capital of US$54,000,000	–	20%	9%
Taikoo (Shandong) Aircraft Engineering Company Limited *#	Jinan	Airframe maintenance services for narrow-body aircraft	Registered capital of RMB200,000,000	30%	10%	35.86%
Taikoo 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 joint venture 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.
+ Translated name.
~ Wholly foreign owned enterprise incorporated in Mainland China.
^ Company in which the Group does not have control despite holding more than 50% share capital.

Principal Accounting Policies

The principal accounting policies of the Group are set out in the relevant Notes to the Consolidated Accounts if they relate to a particular item. Other principal accounting policies are set out as follows.

1. Basis of preparation

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

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

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

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2009-2011 Cycle
HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 19 (revised 2011)	Employee Benefits
HKAS 27 (revised 2011)	Separate Financial Statements
HKAS 28 (revised 2011)	Investments in Associates and Joint Ventures
HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurements
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

The following amendment was early adopted by the Group from 1st January 2013:

HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets

The improvements to HKFRSs 2009 to 2011 cycle consists of six amendments to five existing standards. It has had no significant impact on the results and financial position of the Group.

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 profit or loss subsequently or not. The Group's presentation of other comprehensive income in these 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 removed the accounting policy choice that previously permitted only the recognition of actuarial gains and losses outside a 10% 'corridor' to be recognised in 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 (continued)

(a) (continued)

As a result of the adoption of the revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit plans. The change in accounting policy have been applied retrospectively by restating the balances at 31st December 2012 and 2011, and the results for the year ended 31st December 2012 as summarised in the table below:

	As previously reported	Effect of adopting amendments to HKAS 19	As restated
	HK$M	HK$M	HK$M
Consolidated Statement of Financial Position as at 31st December 2012			
Joint venture companies	1,171	(15)	1,156
Retirement benefit assets	343	(205)	138
Deferred tax liabilities	309	(34)	275
Reserves	5,691	(186)	5,505
Consolidated Statement of Financial Position as at 31st December 2011			
Joint venture companies	1,100	(14)	1,086
Retirement benefit assets	320	(180)	140
Deferred tax liabilities	336	(30)	306
Reserves	5,909	(164)	5,745
Company Statement of Financial Position as at 31st December 2012			
Retirement benefit assets	343	(205)	138
Deferred tax liabilities	246	(34)	212
Reserves	4,100	(171)	3,929
Company Statement of Financial Position as at 31st December 2011			
Retirement benefit assets	320	(180)	140
Deferred tax liabilities	276	(30)	246
Reserves	4,318	(150)	4,168
Consolidated Statement of Profit or Loss for the year ended 31st December 2012			
Staff remuneration and benefits	2,551	60	2,611
Share of after-tax results of joint venture companies	564	(4)	560
Taxation	132	(10)	122
Profit attributable to the Company's shareholders	876	(54)	822
	HK$	HK$	HK$
Earnings per share (basic and diluted)	5.27	(0.33)	4.94
	HK$M	HK$M	HK$M
Consolidated Statement of Other Comprehensive Income for the year ended 31st December 2012			
Total comprehensive income attributable to the Company's shareholders	888	(22)	866

HKAS 27 (revised 2011) was issued following the issuance of HKFRS 10. The revised HKAS 27 only deals with the accounting for subsidiaries, joint ventures and associates in the separate financial statements of the parent company. The amendment has had no significant impact on the results and financial position of the Company as it already complies with the requirements of the standard.

HKAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. The amendment has had no significant impact on the results and financial position of the Group.

The amendment to HKFRS 7 required entities to disclose quantitative information about financial assets and financial liabilities that are offset in the statement of financial position or subject to enforceable master netting agreement or similar arrangement. The amendment has had no significant impact on the Group's accounts.

1. Basis of preparation (continued)

(a) (continued)

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 11 provides guidance on what constitutes a joint arrangement by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The new standard has had no significant impact on the results and financial position of the Group.

HKFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has provided the disclosures applicable to 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 liabilities in the Group's accounts.

The amendments to HKFRSs 10, 11 and 12 provide additional transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments have had no significant impact on the Group's accounts.

The amendment to HKAS 36 removes certain disclosures of the recoverable amount of cash generating units which had been included in HKAS 36 by the issue of HKFRS 13. The effective date for the amendment is annual periods on or after 1st January 2014. As permitted, the Group has early adopted this amendment. The amendment has had no significant impact on the Group's accounts.

(b) The following revised standards are effective but not relevant to the Group's operations:

HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Presentation – Offsetting Financial Assets and Financial Liabilities	1st January 2014
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting	1st January 2014
HK(IFRIC) 21	Levies	1st January 2014
HKFRS 9	Financial Instruments	The mandatory effective date has not been issued but will be no earlier than 1st January 2017

1. Basis of preparation (continued)

(c) (continued)

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

The amendment to HKAS 39 provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. It is not expected that this amendment will have a significant impact on the Group's accounts.

HK(IFRIC) 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to a levy and when a liability should be recognised. It is not expected that this interpretation will have a significant impact on the results and financial position of the Group.

HKFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the portion of a fair value change attributable to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Group has yet to assess the full impact of the new standard.

(d) The following amendment has been issued which is not yet effective and is not relevant to the Group's operations:

HKFRS 10, HKFRS 12 and HKAS 27 (Amendment)	Investment Entities

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiary companies and the Group's interests in joint venture companies made up to 31st December.

The results of subsidiary companies are included in the consolidated statement of profit or loss and non-controlling interests therein are disclosed separately as a component of the consolidated profit after tax. Results attributable to subsidiary company interests acquired or disposed of during the year are included from the date on which control is transferred to the Group or to the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiary companies by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The cost of an acquisition includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary company acquired, the difference is recognised directly in profit or loss.

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

2. Basis of consolidation (continued)

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 treats 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, joint venture company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

3. 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 Group's functional currencies 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 statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any associated translation difference is also recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in the statement of profit or loss, any associated translation difference is also recognised in the statement of profit or loss.

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 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 statement of profit or loss are translated at average exchange rates; and

(c) All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component in equity.

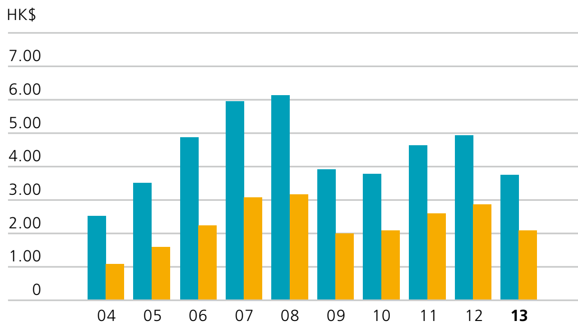
On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated in a separate component of equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of profit or loss as part of the gain or loss on sale.

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

Ten-year Financial Summary

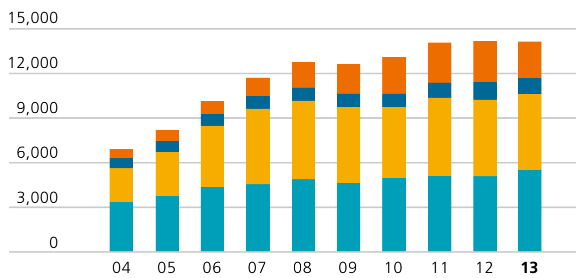
	2004	2005	2006
	HK$M (Restated)	HK$M (Restated)	HK$M (Restated)
Turnover	2,134	3,121	3,844
Net operating profit	200	470	738
Share of after–tax results of joint venture companies	255	265	328
Profit attributable to the Company's shareholders	421	585	811
Interim and final dividends	181	266	374
Special dividend	–	–	416
Net assets employed			
Non-current assets	3,239	3,585	4,448
Net current assets/(liabilities) excluding deposits and loans	68	45	(212)
Cash surplus/(Net borrowings)	476	877	834
Less: non-current liabilities excluding loans	(171)	(334)	(402)
	3,612	4,173	4,668
Financed by			
Equity attributable to the Company's shareholders	3,117	3,587	3,986
Non-controlling interests	495	586	682
	3,612	4,173	4,668
	HK$	HK$	HK$
Results per share			
Earnings attributable to the Company's shareholders	2.53	3.52	4.88
Interim and final dividends	1.09	1.60	2.25
Special dividend	–	–	2.50
Equity attributable to the Company's shareholders	18.74	21.57	23.97
Number of staff			
HAECO	3,343	3,757	4,356
TAECO	2,250	2,945	4,098
HAESL	689	750	805
Other subsidiary and joint venture companies in which HAECO and TAECO own at least 20%	599	731	859
	6,881	8,183	10,118
Ratio			
Return on equity	13.7%	17.5%	21.4%
Profit margin	8.4%	13.2%	17.3%
Dividend cover – times *	2.32	2.20	2.17
Gearing ratio	–	–	–
Interest cover – times	67.67	NA	NA
	HK$	HK$	HK$
Share prices			
High	47.10	66.00	120.00
Low	32.00	39.90	59.50
Year-end	41.90	59.50	106.00
Market information			
Price/earnings – times	16.56	16.90	21.72
Market capitalisation (HK$ Million)	6,969	9,896	17,630

Earnings and Dividends Per Share*



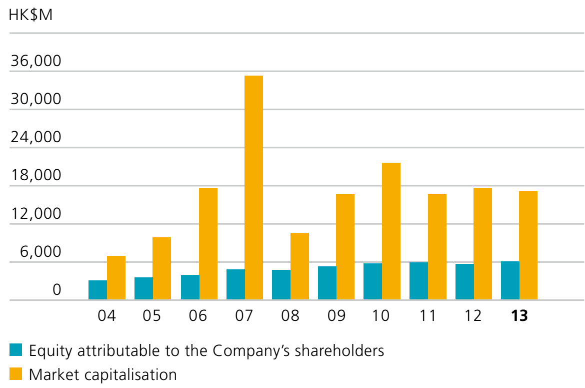
** Dividends represent the interim and final dividends.*

Number of Staff



2007	2008	2009	2010	2011	2012	2013
HK$M (Restated)	HK$M (Restated)	HK$M (Restated)	HK$M (Restated)	HK$M (Restated)	HK$M (Restated)	HK$M
4,619	4,901	4,045	4,266	5,171	5,830	7,387
909	892	341	310	471	417	228
394	453	417	402	431	560	501
993	1,022	652	630	772	822	625
512	529	332	349	432	479	349
–	–	–	–	566	–	–
5,283	5,967	6,978	7,159	7,121	7,037	7,424
(38)	(162)	(115)	146	276	534	608
767	215	(143)	(176)	(106)	(261)	(193)
(645)	(341)	(419)	(428)	(365)	(503)	(513)
5,367	5,679	6,301	6,701	6,926	6,807	7,326
4,882	4,740	5,337	5,780	5,911	5,671	6,097
485	939	964	921	1,015	1,136	1,229
5,367	5,679	6,301	6,701	6,926	6,807	7,326
HK$	HK$	HK$	HK$	HK$	HK$	HK$
5.97	6.14	3.92	3.79	4.64	4.94	3.76
3.08	3.18	2.00	2.10	2.60	2.88	2.10
–	–	–	–	3.40	–	–
29.35	28.50	32.09	34.75	35.54	34.10	36.66
4,523	4,861	4,621	4,967	5,102	5,070	5,492
5,086	5,268	5,094	4,739	5,240	5,144	5,091
844	908	892	901	1,023	1,165	1,073
1,245	1,701	2,008	2,471	2,689	2,776	2,460
11,698	12,738	12,615	13,078	14,054	14,155	14,116
22.4%	21.2%	12.9%	11.3%	13.2%	14.2%	10.6%
18.2%	15.9%	7.6%	5.9%	7.7%	5.1%	2.6%
1.94	1.93	1.96	1.80	1.79	1.72	1.79
–	–	2.3%	2.6%	1.5%	3.8%	2.6%
NA	NA	69.20	39.75	68.29	25.53	7.00
HK$	HK$	HK$	HK$	HK$	HK$	HK$
246.20	215.00	112.00	150.00	130.70	113.48	114.03
104.00	44.60	64.00	79.00	92.00	94.33	101.50
212.20	63.70	100.80	129.90	100.00	106.40	103.00
35.54	10.37	25.71	34.27	21.55	21.54	27.39
35,294	10,595	16,766	21,606	16,632	17,697	17,131

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

Dividend cover = $\dfrac{\text{Profit attributable to the Company's shareholders}}{\text{Interim and final dividends paid and proposed}}$

Earnings per share = $\dfrac{\text{Profit attributable to the Company's shareholders}}{\text{Weighted average number of shares in issue during the year}}$

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

Interest cover = $\dfrac{\text{Operating profit}}{\text{Net finance charges}}$

Market capitalisation = Year-end share price x Number of shares in issue at year-end

Price/earnings = $\dfrac{\text{Year-end share price}}{\text{Earnings per share}}$

Profit margin = $\dfrac{\text{Profit for the year excluding share of after-tax results of joint venture companies}}{\text{Turnover}}$

Return on equity = $\dfrac{\text{Profit attributable to the Company's shareholders}}{\text{Average equity during the year attributable to the Company's shareholders}}$

Financial Calendar and Information for Investors

Financial Calendar 2014

Shares traded ex-dividend	26th March 2014
Register of members closed for second interim dividend	28th March 2014
Annual Report available to shareholders	3rd April 2014
Payment of 2013 second interim dividend	29th April 2014
Register of members closed for attending and voting at Annual General Meeting	5th – 9th May 2014
Annual General Meeting	9th May 2014
Interim results announcement	August 2014
First interim dividend payable	September 2014

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