



Hong Kong Aircraft Engineering
Company Limited

Stock Code: 00044

INTERIM REPORT 2014



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Financial Highlights

		Six months ended 30th June		
		2014	2013	Change
Results				
Turnover	HK\$ Million	5,337	3,222	+65.6%
Net operating profit	HK\$ Million	225	155	+45.2%
Share of after-tax results of joint venture companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	HK\$ Million	136	255	-46.7%
– Other joint venture companies	HK\$ Million	25	23	+8.7%
Profit attributable to the Company's shareholders	HK\$ Million	283	359	-21.2%
Earnings per share attributable to the Company's shareholders (basic and diluted)	HK\$	1.70	2.16	-21.2%
First interim dividend per share	HK\$	0.65	0.80	-18.8%
		30th June 2014	31st December 2013	Change
Financial Position				
Net borrowings	HK\$ Million	3,200	193	+1,558.0%
Gearing ratio	%	43.8	2.6	+41.2%pt
Total equity	HK\$ Million	7,306	7,326	-0.3%
Equity attributable to the Company's shareholders per share	HK\$	36.72	36.66	+0.2%
		2014	2013	Change
Cash Flows				
Net cash generated from operating activities	HK\$ Million	313	155	+101.9%
Net cash (outflow)/inflow before financing activities	HK\$ Million	(2,816)	169	-1,766.3%

Notes:

The weighted average number of shares in issue is 166,324,850 in 2014 (2013: 166,324,850).

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

Chairman's Letter

The HAECO Group reported an attributable profit of HK\$283 million for the first six months of 2014. This compares with a profit of HK\$359 million for the equivalent period in 2013. Earnings per share decreased by 21.2% to HK\$1.70. Turnover increased by 65.6% to HK\$5,337 million, with the acquisition of TIMCO accounting for 61.8% of the increase.

The Directors have declared a first interim dividend of HK\$0.65 per share (2013: HK\$0.80 per share) for the period ended 30th June 2014, a decrease of 18.8% from the first interim dividend paid in 2013, compared with a decrease of 21.2% in attributable profit. The first interim dividend, which totals HK\$108 million (2013: HK\$133 million), will be paid on 16th September 2014 to shareholders registered at the close of business on the record date, being Friday 29th August 2014. Shares of the Company will be traded ex-dividend as from Wednesday 27th August 2014.

The register of members will be closed on Friday 29th August 2014, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday 28th August 2014.

Demand for HAECO's line maintenance services in Hong Kong in the first half of 2014 remained stable. Its airframe maintenance activities continued to be adversely affected by capacity constraints caused by the lead time to train new staff. Demand for component and avionics overhaul services in Hong Kong fell substantially as a result of the retirement of Boeing 747-400 aircraft. The profits of Hong Kong Aero Engine Services Limited ("HAESL") decreased. Fewer engines

were overhauled and less overhaul work was done per engine. The reduction in engine output reflected a reduction in the required frequency of scheduled maintenance, in particular for Trent 700 engines.

HAECO USA Holdings, Inc ("HAECO USA") completed the acquisition of TIMCO Aviation Services, Inc. ("TIMCO") in February 2014. It recorded a small loss in the first half of 2014 from the date of its acquisition. TIMCO's airframe maintenance services produced good results. Its cabin integration services were, however, adversely affected by the deferral of some ongoing customer programme work.

The profit of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") decreased. Demand for its airframe maintenance services was stable, but labour costs were higher. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") performed well. It overhauled more engines and made a profit (compared to a loss in the first half of 2013). Taikoo (Xiamen) Landing Gear Services Company Limited ("TALSCO") resumed landing gear overhaul work for customers in April 2014. It reported a higher loss in the first half of 2014 as the results for the comparative period included income from a business interruption insurance policy. The overall results of the Group's other joint ventures in Mainland China, excluding one commencing operations this year, improved over those of the same period last year as output volumes increased.

The Group continued to invest in order to expand its facilities and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure during the first half of 2014 was HK\$3,259 million (including expenditure on the acquisition of TIMCO of HK\$2,942 million). Capital expenditure committed at the end of June was HK\$997 million.

In Hong Kong, improvements in remuneration, career development opportunities and training have resulted in more staff joining and fewer leaving, such that the overall manpower level has stabilised in the first half of 2014. However, it still takes considerable time to train new staff to reach required skill and experience levels. As a result, HAECO's available aircraft maintenance capacity in the second half of 2014 is expected to remain flat. Demand for line maintenance services is expected to remain stable. Demand for the airframe maintenance services of TAECO and TIMCO is expected to be lower in the second half of the year than in the first half. HAESL's performance is expected to continue to be impacted by a reduction in demand for engine overhaul services. TEXL is expected to perform well.

The municipal government in Xiamen has submitted a proposal to government authorities in Beijing to develop a new airport at Xiang'an. The timing of the development of the new airport and its impact on the operations of TAECO and other HAECO Group companies at the existing airport are not yet clear. Management maintains regular communication with the local authorities and intends to develop plans for continued operations in Xiamen.

John Slosar

Chairman

Hong Kong, 12th August 2014

2014 Interim Review

The HAECO Group acquired TIMCO in February 2014. As a result, the Group provides aircraft maintenance services in the United States as well as in Asia and has extended its technical capabilities.

AIRFRAME MAINTENANCE

The below table summarises TIMCO's airframe maintenance capabilities.

Approval authority	Aircraft type	Location
United States Federal Aviation Administration and Transport Canada Civil Aviation	Airbus A300, A310, A318, A319, A320 and A321 aircraft and Boeing 737, 757, 767, 777, DC-9, DC-10, KC-10, MD-10, MD-11, MD-80 and MD-90 aircraft	Greensboro, North Carolina
	Airbus A318, A319, A320 and A321 aircraft, Boeing 727, 737, 757, 767, DC-9, DC-10, MD-10, MD-11, MD-80, and MD-90 aircraft and Lockheed Martin C-130 aircraft	Lake City, Florida
	Airbus A318, A319, A320 and A321 aircraft and Boeing 727, 737, 757, 767, DC-8, DC-9, DC-10 and MD-80 aircraft	Macon, Georgia
	Embraer EMB135/145 and ERJ-170/190 aircraft and Bombardier CRJ200, CRJ700 and CRJ900 aircraft	Cincinnati, Ohio
European Aviation Safety Agency	Airbus A300, A310, A318, A319, A320 and A321 aircraft and Boeing 737, 757, 767, 777, DC-9, DC-10, KC-10, MD-10, MD-11, MD-80 and MD-90 aircraft	Greensboro, North Carolina
	Airbus A318, A319, A320 and A321 aircraft, Boeing 727, 737, 757, 767, DC-9, DC-10, MD-10, MD-11, MD-80 and MD-90 aircraft and Lockheed Martin C-130 aircraft	Lake City, Florida

In the first half of 2014, TIMCO worked on three cabin reconfiguration programmes at Greensboro, including acting as integrator and supplemental type certificate ("STC") provider. In May 2014, TIMCO completed the interior modification of 18 Delta Air Lines Boeing 777-200 aircraft. In June 2014, TIMCO completed its 39th interior modification for Alaska Airlines Boeing 737-800/900 aircraft. There are 73 aircraft in this programme, which is expected to be completed by the end of 2014. Work continued on a VIP modification of a Boeing 767-300 aircraft for an Equatorial Guinean customer.

In April 2014, TIMCO completed the last of 123 installations of Panasonic's Global Communication Suite ("GCS") on United Airlines Airbus A319 and A320 aircraft at Lake City. TIMCO manufactures satellite adapter plates for GCSs. In June 2014, TIMCO completed its 95th cabin reconfiguration for United Airlines Airbus A319 and A320 aircraft at Lake City. There are 152 aircraft in this programme, which is expected to be completed in early 2015.

In April 2014, TIMCO completed a cabin modification programme for 114 Bombardier CRJ700 aircraft belonging to United Airlines' regional airline partners at its Cincinnati facility. TIMCO then agreed to do a similar programme for 38 Bombardier CRJ200 aircraft belonging to another North American airline.

In the first half of 2014, Taikoo (Shandong) Aircraft Engineering Company Limited ("STAECO") obtained approval from the civil aviation authority of Mainland China to do passenger to freighter conversions on Boeing 737-400 aircraft and to refit a pressure floor on a Bombardier CRJ700 aircraft.

LINE MAINTENANCE

TIMCO has 18 line maintenance stations in the United States. In the first half of 2014, the company opened line maintenance stations for Icelandair in Anchorage and Washington, D.C. and for Air Canada in San Francisco.

TAECO agreed with Air Asia and THAI Smile to provide line maintenance services for their Airbus A320 aircraft in Chongqing.

Shanghai Taikoo Aircraft Engineering Services Company Limited ("STA") has received approval from the civil aviation authority of the Philippines to do line maintenance on Airbus A319, A320, A321, A330, A340

and on Boeing 777-300ER aircraft and from the civil aviation authority of Indonesia to do line maintenance on Boeing 777 aircraft.

ENGINE OVERHAUL

HAESL is expected to obtain approvals this year from Rolls-Royce to carry out additional repairs on compressor and turbine stub shafts for RB211-524 and Trent 900 engines. The company expects to develop the capability to repair Trent XWB engines in early 2015, one year earlier than planned.

In the first half of 2014, TEXL obtained approvals from civil aviation authorities in Europe and Mainland China to do full performance restorations on GE90-110B and GE90-115B high pressure compressors, low pressure compressors and low pressure turbines.

TIMCO overhauls engines for the majority of US and Canadian cargo airlines using JT8D engines. In June 2014, TIMCO sold its 25th Pratt & Whitney JT8D engine.

COMPONENT SERVICES

In the first half of 2014, HAECO started to recharge, repair, overhaul and assemble oxygen bottles.

In February 2014, Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("Taikoo Spirit") completed its sixth inspection and repair of an Airbus A330 Trent 700 C-Duct for the lease return programme of Cathay Pacific Airways ("Cathay Pacific").

In April 2014, the Group started to repair components for Thai Airways.

In May 2014, approval was obtained from the European civil aviation authority for HAECO Component Overhaul (Xiamen) Limited ("CAO China") to repair and overhaul 400 part numbers. CAO China can repair and overhaul hydraulic, mechanical, avionics and pneumatic systems for Airbus and Boeing aircraft.

INVENTORY TECHNICAL MANAGEMENT AND FLEET TECHNICAL MANAGEMENT

HAECO ITM Limited ("HXITM") (owned 70% by HAECO) has been appointed as a provider of inventory technical management and airframe maintenance services for

Hongkong Jet's Airbus A319CJ aircraft. The technical management services are component pool access, component repairs and overhauls and aircraft-on-ground ("AOG"), warehouse and logistics support. HXITM has agreed to provide inventory technical management service for a Boeing 737NG aircraft operator.

The Group has improved its AOG support service by introducing a centralised material support centre.

CABIN INTEGRATION

In May 2014, TIMCO started to ship kits for its first cabin reconfiguration programme for Cathay Pacific. TIMCO designed, manufactured and certified the cabin interior kit for some of Cathay Pacific's Airbus A330-300 aircraft. HAECO will do the modification. TIMCO will also do a cabin reconfiguration programme for 53 of Cathay Pacific's Boeing 777 aircraft.

In the first half of 2014, TIMCO obtained STCs (and amendments to existing STCs) in relation to the interiors of Alaska Airlines Boeing 737 aircraft and Delta Air Lines Boeing 777-200 aircraft and started a cabin reconfiguration programme for 18 Air Canada Boeing 777-200/300 aircraft. TIMCO and HAECO will do the installation.

In June 2014, progress was made on the certification of TIMCO's 3040 premium economy seat. Once fully certified later this year, the seats will start to be installed in Boeing 787 aircraft belonging to Thomson Airways.

TECHNICAL TRAINING

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

HAECO's training centre conducted 478 training courses for 6,662 internal and external students in the first half of 2014. TAECO's training centre conducted 217 external training classes for 3,179 students from Mainland China, Hong Kong, Taiwan and Southeast Asia in the first half of 2014.

HAECO has regulatory approvals to provide training in Hong Kong and Xiamen. It is developing the capability to provide training in relation to Airbus A350 and Boeing 787 aircraft.

Review of Operations

A total of 4.96 million airframe maintenance manhours were sold by HAECO, TIMCO and TAECO in the first half of 2014. TIMCO contributed 1.73 million manhours and manhours sold by TAECO increased by 1.0%. This was partially offset by a 4.5% decrease in manhours sold at HAECO. Demand for HAECO's line maintenance services remained stable.

TEXL recorded a profit in the first half of the year with a total of 29 engines overhauled. HAESL overhauled 68 engines, 37.0% fewer than the number overhauled in the same period last year.

The profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		
	2014 HK\$M	2013 HK\$M	Change
HAECO	42	44	-4.5%
HAECO USA	(3)	N/A	N/A
TAECO	51	62	-17.7%
TEXL	68	(13)	+623.1%
Share of:			
HAESL and SAESL	136	255	-46.7%
Other subsidiary and joint venture companies	(11)	11	-200.0%
	283	359	-21.2%

	Six months ended 30th June		
	2014	2013	Change
Airframe maintenance sold manhours (in millions)			
HAECO	1.26	1.32	-4.5%
TIMCO	1.73	N/A	N/A
TAECO	1.97	1.95	+1.0%
	4.96	3.27	+51.7%

	Six months ended 30th June		
	2014	2013	Change
Line maintenance aircraft movements (per day)			
HAECO	327	326	+0.3%
TAECO	40	44	-9.1%
STA	48	39	+23.1%
Engine output			
TEXL – performance restoration	15	5	+200.0%
TEXL – quick turn repair	14	17	-17.6%
HAESL	68	108	-37.0%

HAECO

HAECO's business in Hong Kong comprises airframe maintenance, line maintenance at the passenger and cargo terminals at Hong Kong International Airport, component and avionics overhaul and fleet technical management. Business in Hong Kong was weak in the first half of 2014. HAECO recorded a 4.5% decrease in profit compared to the equivalent period in 2013.

1.26 million airframe maintenance manhours were sold by HAECO in the first half of 2014, 4.5% lower than in the first half of 2013. More staff were recruited and fewer staff left. However, airframe maintenance capacity was constrained by the long lead time to train the new staff. Approximately 72.1% of the work was for airlines based outside Hong Kong.

Line maintenance aircraft movements increased by 0.3% compared with the first half of 2013, with an average of 327 aircraft handled per day.

0.11 million component repair manhours were sold at the Tseung Kwan O facility, 21.4% less than in the first half of 2013. The decrease reflected a significant reduction of work on components of Boeing 747-400 aircraft as these aircraft were retired.

Airframe maintenance capacity is expected to continue to be constrained in the second half of 2014. Demand for line maintenance is expected to remain stable. Component repair work is expected to continue to be affected by the retirement of Boeing 747-400 aircraft.

HAECO USA

In February 2014, HAECO USA completed the acquisition of 100% of the shares in TIMCO for consideration of US\$370.4 million (HK\$2,876 million) and 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 aircraft technical services in the United States – airframe maintenance, line maintenance, engine services, cabin integration and the manufacture of aircraft interior products (including seats). HAECO USA recorded revenue of HK\$1,308 million and a small loss in the first half of 2014.

Demand for TIMCO's airframe maintenance services was strong. 1.73 million manhours were sold. TIMCO opened three line maintenance stations in the first half of 2014. It has stations at 18 airports in the United States. Demand for Pratt & Whitney JT8D engine overhaul work was steady in the first half of 2014, reflecting unscheduled repairs for United States and Canadian customers. 23 engines were overhauled and two were sold.

The performance of TIMCO's cabin integration services and interior products manufacturing benefited from work on two large cabin integration programmes and the shipment of approximately 4,300 premium economy and economy seats. However, the overall performance was adversely affected by the deferral of some ongoing customer programme work.

Demand for TIMCO's airframe maintenance services is expected to be weaker in the second half of 2014 than in the first half reflecting seasonal factors.

TAECO

Demand for TAECO's airframe maintenance services was stable in the first half of 2014. Total manhours sold were 1.97 million, representing a 1.0% increase from the same period in 2013. Three narrow-body passenger aircraft were converted to cargo aircraft in the half year, compared to one in the first half of 2013.

TAECO provides line maintenance services in Xiamen, Beijing, Tianjin and Chongqing. It handled an average of 40 aircraft movements per day in the first half of 2014.

VIP cabin completion revenue in the first half of 2014 was comparable to that for the same period last year. TAECO was doing work on cabin completion of two Airbus A319 aircraft during the period. Manufacturing revenue in the first half of 2014 increased by 26.1%. Revenue from training was stable.

TAECO's performance for the whole of 2014 is expected to be affected by weaker demand for airframe maintenance in the second half of the year.

Management maintains regular communication with the local authorities about the timing of the development of the new airport at Xiang'an and its impact on the operations of TAECO and other HAECO Group companies at the existing airport.

TEXL

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 overhauls GE90-110B and GE90-115B engines. In the first half of 2014, TEXL completed 14 quick turn repairs on GE90 aircraft engines, (nine of them being heavy or medium repairs) and 15 performance restorations on such engines, compared with 17 quick turn repairs and five performance restorations in the first half of 2013. TEXL did high pressure turbine shroud and vane replacements, low pressure turbine disc and blade replacements and turbine centre frame modifications. More engines were overhauled, more work was done per engine and more components were repaired in the first half of 2014 than in the first half of 2013. This resulted in TEXL making satisfactory profits compared with a loss in the first half of 2013.

As demand for its engine overhaul work remains firm, TEXTL is expected to perform well in the second half of 2014.

HAESL

HAESL (45% owned) recorded a 52.7% decrease in profit in the first half of 2014 compared to the first half of 2013. Fewer engines were overhauled and less work was done per engine. This reflected a reduction in the required frequency of scheduled maintenance of engines (particularly of Trent 700 engines) and retirement of older engine types. Engine output was 68 in the first half of 2014 compared with 108 in the corresponding period last year.

Singapore Aero Engine Services Pte. Limited ("SAESL"), in which HAESL has a 20% interest, recorded a 24.1% decrease in profit in the first half of 2014 compared to the first half of 2013. Fewer engines were overhauled.

Retirement of older aircraft (powered by RB211-524 or Trent 500 engines) and the reduction in the required frequency of scheduled maintenance of Trent 700 engines are expected to affect HAESL's performance adversely for the next two years. Things are likely to improve once HAESL becomes capable of overhauling Trent XWB engines and there is demand for such overhaul (after 2016).

OTHER PRINCIPAL SUBSIDIARY AND JOINT VENTURE COMPANIES

HXITM (owned 70% by HAECO) provides inventory technical management services to Cathay Pacific and other airlines. In the first half of 2014, the total number of aircraft for which services were provided was 225, an increase of 5.6% over the equivalent period in 2013 and profits increased accordingly.

TALSCO (owned 63.80% by HAECO and 10% by TAECO) resumed landing gear overhaul work for customers in

April 2014. It reported a higher loss in the first half of 2014 as the results for the comparative period included income from a business interruption insurance policy.

STA (owned 60% by HAECO and 15% by TAECO) provides line maintenance services in Shanghai and Nanjing. The average number of aircraft movements handled per day was 48 in the first half of 2014, 23.1% higher than that of 2013. Operating profit increased accordingly.

CAO China (100% owned) started to operate in May 2014. It incurred a loss in the first half of the year. This principally reflected training and pre-operating expenses.

Singapore HAECO Pte. Limited ("SHAECO") (100% owned) incurred a loss in first half of 2014 following the expiry of a contract with a major customer in 2013.

Taikoo Spirit (owned 41.8% by HAECO and 10.76% by TAECO) became profitable in the first half of 2014 as a result of higher sales volume and revenues.

STAFF

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

	30th June 2014	31st December 2013	Change
HAECO	5,529	5,492	+0.7%
HAECO USA	2,930	N/A	N/A
TAECO	4,901	5,091	-3.7%
TEXTL	249	218	+14.2%
HAESL	953	1,073	-11.2%
Other subsidiary and joint venture companies in which HAECO and TAECO own more than 20%	2,255	2,242	+0.6%
	16,817	14,116	+19.1%

Financial Review

TURNOVER

Turnover increased by 65.6% to HK\$5,337 million, principally reflecting a contribution of HK\$1,308 million from HAECO USA. TEXTL and TAECO recorded increases in turnover of 135.3% and 3.5% respectively. The increases were partly offset by a 1.1% reduction in HAECO's turnover.

	Six months ended 30th June		
	2014 HK\$M	2013 HK\$M	Change
HAECO	1,554	1,571	-1.1%
HAECO USA	1,308	N/A	N/A
TAECO	1,009	975	+3.5%
TEXTL	1,299	552	+135.3%
Others	167	124	+34.7%
	5,337	3,222	+65.6%

OPERATING EXPENSES

Operating expenses increased by 65.1% to HK\$5,076 million, principally reflecting the consolidation of HAECO USA. In addition, staff remuneration and benefits rose because of salary increases in Mainland China and Hong Kong. The increase in the cost of direct material and job expenses principally reflected an increase in business volume at TEXTL.

	Six months ended 30th June		
	2014 HK\$M	2013 HK\$M	Change
Staff remuneration and benefits	2,183	1,470	+48.5%
Cost of direct material and job expenses	2,167	1,108	+95.6%
Depreciation, amortisation and impairment	316	211	+49.8%
Other operating expenses	410	285	+43.9%
	5,076	3,074	+65.1%

PROFIT

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

	HK\$M	
2013 interim profit	359	
Turnover		
HAECO	(17)	The decrease principally reflects a 4.5% decrease in airframe maintenance manhours sold due to the lead time to train new staff.
HAECO USA	1,308	The revenue mainly came from airframe maintenance work, cabin integration and seats manufacturing.
TAECO	34	The increase reflects a 1.0% growth in airframe maintenance manhours.
TEXTL	747	The growth reflects a significant increase in engine repair work.
Others	43	The increase principally reflects an increase in business volume at HXITM.
Staff remuneration and benefits	(713)	The increase principally reflects the inclusion of staff cost at HAECO USA.
Cost of direct material and job expenses	(1,059)	The increase mainly reflects growth in business volume at TEXTL.
Depreciation, amortisation and impairment	(105)	The increase mainly reflects depreciation of property, plant and equipment belonging to TIMCO, amortisation of intangible assets arising from the acquisition of TIMCO and higher impairment losses on assets of TALSCO.
Other operating expenses	(125)	The increase principally reflects the inclusion of other operating expenses at HAECO USA.
Share of after-tax results of joint venture companies	(117)	The decrease principally reflects a reduction in HAESL profit.
Taxation	(31)	The increase reflects the lower tax charge in 2013 at TAECO arising from deferred tax movements.
Other items	(43)	These items include the foreign exchange losses at TAECO, compared to a corresponding mark-to-market foreign exchange gains in the first half of 2013.
Non-controlling interests	2	
2014 interim profit	283	

FINANCIAL POSITION

- Total assets at 30th June 2014 were HK\$15,285 million. During the period, additions to fixed assets were HK\$1,519 million. Included in this amount was HK\$1,187 million arising from the consolidation of TIMCO, HK\$92 million spent on plant, machinery and tools and HK\$179 million spent on rotatable and repairable spares for inventory technical management.
- At 30th June 2014, the Group's net borrowings were HK\$3,200 million (representing an increase of HK\$3,007 million from that at 31st December 2013), with a gearing ratio of 43.8%. Net borrowings consisted of short-term loans of HK\$502 million, long-term loans of HK\$4,916 million and finance lease obligations of HK\$18 million, net of bank balances and short-term deposits of HK\$2,236 million. Loans are denominated in US dollars, HK dollars and Renminbi, and are fully repayable by 2017. The increase in net borrowings predominantly reflects bank loans to finance the acquisition of TIMCO.
- The maturity of long-term loans at 30th June 2014 was as follows:

	Group	
	30th June 2014 HK\$M	31st December 2013 HK\$M
Bank loans:		
Repayable within one year	75	369
Repayable between one and two years	4,458	892
Repayable between two and five years	383	763
	4,916	2,024

- Committed facilities amounted to HK\$7,592 million at 30th June 2014, of which HK\$2,756 million were undrawn. There were uncommitted facilities of HK\$1,987 million, of which HK\$1,370 million were undrawn. Sources of funds at 30th June 2014 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M
Committed facilities				
– Loans and finance leases	7,592	4,836	146	2,610
Uncommitted facilities				
– Loans and overdraft	1,987	617	1,370	–
Total	9,579	5,453	1,516	2,610

- TAECO mitigates its exposure to changes in the exchange rate of the US dollar against the Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 30th June 2014, TAECO had sold forward a total of US\$74 million to fund part of its Renminbi requirements for 2014 to 2016. The weighted average exchange rate applicable to these forward sales was RMB6.31 to US\$1. Because of the weakening of the Renminbi against the US dollar, total losses of HK\$5 million on forward foreign exchange contracts arose in the first half of 2014.
- The Group's loans were on a floating rate basis at 30th June 2014. The principal amount of loans at 30th June 2014 which gives rise to exposure to interest rate changes (after interest rate swaps) was HK\$4,271 million. The Group's weighted average effective interest rate per annum at 30th June 2014 was 1.46%.

Report on Review of Condensed Interim Accounts

TO THE BOARD OF DIRECTORS OF HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed interim accounts set out on pages 12 to 32, which comprises the consolidated statement of financial position of Hong Kong Aircraft Engineering Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30th June 2014 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim accounts to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of the interim accounts in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on the interim accounts based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and

other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 12th August 2014

Consolidated Statement of Profit or Loss

for the six months ended 30th June 2014

	Note	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December	
		2014 HK\$M	2013 HK\$M	2013 HK\$M	
Turnover	4	5,337	3,222	7,387	
Operating expenses:					
Staff remuneration and benefits		(2,183)	(1,470)	(3,053)	
Cost of direct material and job expenses		(2,167)	(1,108)	(3,039)	
Depreciation, amortisation and impairment		(316)	(211)	(488)	
Insurance and utilities		(96)	(73)	(87)	
Operating lease rentals – land and buildings		(112)	(98)	(180)	
Repairs and maintenance		(93)	(51)	(149)	
Other		(109)	(63)	(212)	
		(5,076)	(3,074)	(7,208)	
Other net (losses)/gains		(3)	26	87	
Operating profit	4	258	174	266	
Finance income	5	15	8	21	
Finance charges	5	(48)	(27)	(59)	
Net operating profit		225	155	228	
Share of after-tax results of joint venture companies	10	161	278	501	
Profit before taxation		386	433	729	
Taxation	6	(63)	(32)	(33)	
Profit for the period		323	401	696	
Profit attributable to:					
The Company's shareholders		283	359	625	
Non-controlling interests		40	42	71	
		323	401	696	
Dividends					
First interim – declared/paid		108	133	133	
Second interim – paid		–	–	216	
		108	133	349	
		HK\$	HK\$	HK\$	
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	7	1.70	2.16	3.76	
		2014	2013		
		First interim HK\$	First interim HK\$	Second interim HK\$	Total HK\$
Dividends per share		0.65	0.80	1.30	2.10

Consolidated Statement of Other Comprehensive Income

for the six months ended 30th June 2014

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December	
	2014 HK\$M	2013 HK\$M	2013 HK\$M	
Profit for the period	323	401	696	
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Defined benefit retirement schemes				
– remeasurement gains recognised during the period	–	–	246	
– deferred tax	–	–	(40)	
Share of other comprehensive income of joint venture companies	–	–	21	
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges				
– losses recognised during the period	(19)	–	–	
– transferred to profit or loss account	5	–	–	
– deferred tax	3	–	–	
Share of other comprehensive income of joint venture companies	1	(2)	(3)	
Net translation differences on foreign operations	(79)	42	83	
Other comprehensive income for the period, net of tax	(89)	40	307	
Total comprehensive income for the period	234	441	1,003	
Total comprehensive income attributable to:				
The Company's shareholders	227	382	902	
Non-controlling interests	7	59	101	
	234	441	1,003	

Consolidated Statement of Financial Position

at 30th June 2014

	Note	(Unaudited) 30th June 2014 HK\$M	(Audited) 31st December 2013 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	5,278	4,909
Leasehold land and land use rights	8	365	359
Intangible assets	9	2,685	503
Joint venture companies	10	1,231	1,213
Derivative financial instruments	12	5	11
Deferred tax assets	15	81	83
Retirement benefit assets	11	319	333
Long-term prepayment		18	13
		9,982	7,424
Current assets			
Stocks of aircraft parts		682	327
Work in progress		386	130
Trade and other receivables	13	1,985	2,045
Derivative financial instruments	12	13	16
Cash and cash equivalents		2,214	2,341
Short-term deposits		22	23
Taxation recoverable		1	–
		5,303	4,882
Current liabilities			
Trade and other payables	14	1,827	1,875
Taxation payable		46	35
Derivative financial instruments	12	9	–
Short-term loans		502	533
Long-term loans due within one year		75	369
Finance lease obligations due within one year		3	–
		2,462	2,812
Net current assets		2,841	2,070
Total assets less current liabilities		12,823	9,494
Non-current liabilities			
Long-term loans		4,841	1,655
Finance lease obligations		15	–
Receipt in advance		32	37
Deferred income		10	11
Advance from a related party		218	90
Put option over a non-controlling interest in a subsidiary company	2(b)	72	72
Deferred tax liabilities	15	311	303
Derivative financial instruments	12	7	–
Other payables		11	–
		5,517	2,168
NET ASSETS		7,306	7,326
EQUITY			
Share capital	16	185	166
Reserves	17	5,923	5,931
Equity attributable to the Company's shareholders		6,108	6,097
Non-controlling interests		1,198	1,229
TOTAL EQUITY		7,306	7,326

Consolidated Statement of Cash Flows

for the six months ended 30th June 2014

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2014 HK\$M	2013 HK\$M	2013 HK\$M
Operating activities			
Cash generated from operations	389	222	644
Interest paid	(36)	(22)	(49)
Interest received	20	8	17
Tax paid	(60)	(53)	(107)
Net cash generated from operating activities	313	155	505
Investing activities			
Purchase of property, plant and equipment	(315)	(285)	(558)
Purchase of intangible assets	(2)	–	(2)
Proceeds from disposals of property, plant and equipment	–	–	2
Repayment of loans by joint venture companies	–	29	91
Dividends received from joint venture companies	130	254	471
Net cash (outflow)/inflow on purchase of shares in a subsidiary company	(2,942)	11	11
Net decrease in deposits maturing after more than three months	–	5	2
Net cash (used in)/generated from investing activities	(3,129)	14	17
Net cash (outflow)/inflow before financing activities	(2,816)	169	522
Financing activities			
Proceeds from loans	3,540	661	1,131
Repayment of loans and finance leases	(697)	(138)	(257)
Capital contribution from non-controlling interests	–	–	5
Advance from a related party	128	–	–
Dividends paid to the Company's shareholders	(216)	(333)	(466)
Dividends paid to non-controlling interests	(38)	(31)	(31)
Net cash generated from financing activities	2,717	159	382
(Decrease)/increase in cash and cash equivalents	(99)	328	904
Cash and cash equivalents at 1st January	2,341	1,418	1,418
Currency adjustment	(28)	8	19
Cash and cash equivalents at end of the period	2,214	1,754	2,341

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2014

Note	Attributable to the Company's shareholders				Non-controlling interests HK\$M	Total equity HK\$M
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M		
At 1st January 2014	166	5,703	228	6,097	1,229	7,326
Profit for the period	–	283	–	283	40	323
Other comprehensive income	–	–	(56)	(56)	(33)	(89)
Total comprehensive income for the period	–	283	(56)	227	7	234
Dividends paid	–	(216)	–	(216)	(38)	(254)
Transition to no-par value regime on 3rd March 2014	16	–	(19)	–	–	–
At 30th June 2014 (unaudited)	185	5,770	153	6,108	1,198	7,306
	Attributable to the Company's shareholders					
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M	Non-controlling interests HK\$M	Total equity HK\$M
At 1st January 2013						
as originally stated	166	5,514	177	5,857	1,136	6,993
adjustment on adoption of amendments to HKAS 19	–	(186)	–	(186)	–	(186)
as restated	166	5,328	177	5,671	1,136	6,807
Profit for the period	–	359	–	359	42	401
Other comprehensive income	–	–	23	23	17	40
Total comprehensive income for the period	–	359	23	382	59	441
Dividends paid	–	(333)	–	(333)	(31)	(364)
Change in composition of the Group	–	–	–	–	8	8
At 30th June 2013 (unaudited)	166	5,354	200	5,720	1,172	6,892

Notes to the Consolidated Accounts

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies, methods of computation and presentation used in the preparation of the interim financial information are consistent with those described in the 2013 annual accounts except for those noted in 1(b) below.

- (b) The following relevant new and revised standards were required to be adopted by the Group effective from 1st January 2014:

		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

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”. The amendment has had no 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. The amendment has had no 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. The interpretation has had no significant impact on the Group’s accounts.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions as appropriate in the preparation of the financial statements. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include the carrying value and useful economic lives of goodwill and other intangible assets, useful life of property, plant and equipment, the carrying value of insurance receivables arising from the fire at TALSCO in November 2012 and the determination of tax.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Insurance receivables arising from the fire at TALSCO

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

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

In the first half of 2014, additional provisions of HK\$24 million for impairment and other losses, net of expected insurance receivables, have been made on the basis of revised estimates of rebuilding and repair costs and of the corresponding insurance receivables.

(b) Estimate of fair value of put option 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 a discounted cash flow analysis for calculating the fair value of the put option in respect of a non-controlling interest in a subsidiary company.

3. FINANCIAL RISK MANAGEMENT

(a) The Group is exposed to a number of financial risks through the normal course of business. In the view of the Board, the principal financial risks identified under the heading "Financial risk management" set out on pages 63 to 67 of the Annual Report for the year ended 31st December 2013, remain applicable for the six months ended 30th June 2014, and are expected to continue to be the same for the remaining six months of the current financial year, except for the Group financed the acquisition of TIMCO with HK\$3,027 million of external bank loans denominated in US Dollars and Hong Kong Dollars. The loans carry interest at floating rates and are repayable between December 2015 and February 2016. It increases the Group's gearing ratio to 43.8%. The loan agreements contain certain financial covenants that the Group complies with. The interest rate cash flow risk is partially managed through the use of floating to fixed interest rate swaps.

(b) HKFRS 13 for financial instruments that are measured in the statement of financial position at fair value (or for other assets and liabilities whose fair value is disclosed) requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

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

3. FINANCIAL RISK MANAGEMENT (continued)

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

	Group		Total carrying amount HK\$M
	Level 2 HK\$M	Level 3 HK\$M	
Assets			
At 30th June 2014			
Derivatives not qualifying as hedges	18	–	18
Total	18	–	18
At 31st December 2013			
Derivatives not qualifying as hedges	27	–	27
Total	27	–	27
Liabilities			
At 30th June 2014			
Derivatives used for hedging	14	–	14
Derivatives not qualifying as hedges	2	–	2
Put option over a non-controlling interest in a subsidiary company	–	72	72
Total	16	72	88
At 31st December 2013			
Put option over a non-controlling interest in a subsidiary company	–	72	72
Total	–	72	72

3. FINANCIAL RISK MANAGEMENT (continued)

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

Put option over
a non-controlling
interest in a
subsidiary
company
HK\$M

At 1st January 2014 and 30th June 2014

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

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

Description	Unobservable inputs	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%	52/(37)
	Discount rate	8%	The higher the discount rate, the lower the fair value	+/-1%	(52)/76

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

4. SEGMENT INFORMATION

The Group is engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong, Mainland China and the United States. Management has determined the operating segments based on the reports used by the Executive Directors of the Board to assess performance and allocate resources. The Executive Directors of the Board consider the business primarily from an entity perspective. The principal change in the presentation of reportable segments is the addition of a new segment, HAECO USA, which principally comprises the results and segment assets arising from the Group's acquisition of TIMCO (Note 21).

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

Six months ended 30th June 2014	HAECO HK\$M	HAECO USA HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL				Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	
External turnover	1,554	1,308	1,009	1,299	3,963	(3,963)	167	–	5,337
Inter-segment turnover	36	–	7	–	8	(8)	25	(68)	–
Total turnover	1,590	1,308	1,016	1,299	3,971	(3,971)	192	(68)	5,337
Operating profit/(loss)	60	18	129	89	257	(257)	(38)	–	258
Finance income	4	–	8	2	–	–	1	–	15
Finance charges	(13)	(16)	(3)	(8)	(4)	4	(8)	–	(48)
Share of after-tax results of joint venture companies	–	–	–	–	92	44	–	25	161
Profit/(loss) before taxation	51	2	134	83	345	(209)	(45)	25	386
Taxation (charge)/credit	(9)	(5)	(42)	1	(42)	42	(5)	(3)	(63)
Profit/(loss) for the period	42	(3)	92	84	303	(167)	(50)	22	323
Depreciation	80	32	71	18	51	(51)	38	–	239
Amortisation	1	32	6	15	2	(2)	–	–	54
Provision for impairment of stock and property, plant and equipment	6	1	2	–	–	–	23	–	32

4. SEGMENT INFORMATION (continued)

Six months ended 30th June 2013	HAESL							Total HK\$M
	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	
External turnover	1,571	975	552	5,761	(5,761)	124	–	3,222
Inter-segment turnover	36	3	1	2	(2)	32	(72)	–
Total turnover	1,607	978	553	5,763	(5,763)	156	(72)	3,222
Operating profit/(loss)	67	123	(9)	537	(537)	(7)	–	174
Finance income	2	6	–	–	–	–	–	8
Finance charges	(10)	(3)	(8)	(4)	4	(6)	–	(27)
Share of after-tax results of joint venture companies	–	–	–	121	134	–	23	278
Profit/(loss) before taxation	59	126	(17)	654	(399)	(13)	23	433
Taxation (charge)/credit	(15)	(14)	1	(87)	87	–	(4)	(32)
Profit/(loss) for the period	44	112	(16)	567	(312)	(13)	19	401
Depreciation	82	71	18	45	(45)	29	–	200
Amortisation	1	6	15	1	(1)	–	–	22
Provision for impairment of stock and property, plant and equipment	3	3	–	–	–	4	–	10
Reversal of impairment of property, plant and equipment	–	–	–	–	–	(15)	–	(15)

Year ended 31st December 2013	HAESL							Total HK\$M	
	HAECO HK\$M	HAECO USA HK\$M	TAECO HK\$M	TEXL HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		Inter- segment elimination/ unallocated adjustments HK\$M
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	(53)	180	62	978	(978)	(19)	–	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	(53)	186	47	1,195	(730)	(30)	36	729
Taxation (charge)/credit	(18)	16	(25)	1	(161)	161	(4)	(3)	(33)
Profit/(loss) for the year	60	(37)	161	48	1,034	(569)	(34)	33	696
Depreciation	165	–	141	35	91	(91)	62	–	403
Amortisation	1	–	12	30	4	(4)	–	–	43
Provision for impairment of stock and property, plant and equipment	6	–	3	–	–	–	56	–	65
Reversal of impairment of property, plant and equipment	–	–	–	–	–	–	(14)	–	(14)

4. SEGMENT INFORMATION (continued)

At 30th June 2014	HAESL								Total HK\$M
	HAECO HK\$M	HAECO USA HK\$M	TAECO HK\$M	TEXL HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	
Total segment assets	4,410	3,577	3,036	1,870	2,506	(2,506)	1,870	(709)	14,054
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	30	10	41	29	45	(45)	225	(3)	332
Total segment liabilities	1,595	3,496	663	1,121	763	(763)	1,814	(710)	7,979

At 31st December 2013	HAESL								Total HK\$M
	HAECO HK\$M	HAECO USA HK\$M	TAECO HK\$M	TEXL HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	
Total segment assets	4,865	16	3,218	1,757	3,874	(3,874)	1,667	(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	53	777	1,092	2,140	(2,140)	1,592	(441)	4,980

	30th June 2014 HK\$M	31st December 2013 HK\$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	14,054	11,093
Unallocated: investment in joint venture companies	1,231	1,213
Total assets	15,285	12,306

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

HAESL has been determined as a reportable operating segment, although it is a joint venture company. The Executive Directors of the Board review the full statement of profit or loss and net assets of this entity as part of its performance review and resource allocation decisions. Full information on turnover, profit, assets and liabilities has been included in the above, although these amounts do not appear in the Group's 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.

5. FINANCE INCOME AND FINANCE CHARGES

	Six months ended 30th June		Year ended 31st December
	2014 HK\$M	2013 HK\$M	2013 HK\$M
Finance income:			
Short-term deposits and bank balances	15	6	18
Loans due from joint venture companies	–	2	3
Finance charges:			
Bank loans	(48)	(27)	(59)
	(33)	(19)	(38)

6. TAXATION

	Six months ended 30th June		Year ended 31st December
	2014 HK\$M	2013 HK\$M	2013 HK\$M
Current taxation:			
Hong Kong profits tax	3	11	32
Overseas taxation	45	35	50
Under-provisions in prior years	12	6	1
	60	52	83
Deferred taxation:			
Increase in deferred tax assets	(7)	(21)	(134)
Increase in deferred tax liabilities	10	1	84
	63	32	33

Hong Kong profits tax is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of joint venture companies' tax charges for the six months ended 30th June 2014 of HK\$23 million (30th June 2013: HK\$46 million; year ended 31st December 2013: HK\$84 million) is included in the share of after-tax results of joint venture companies shown in the consolidated statement of profit or loss.

7. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2014 of HK\$283 million (30th June 2013: HK\$359 million; 31st December 2013: HK\$625 million) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2013: 166,324,850; 31st December 2013: 166,324,850).

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

	Property, plant and equipment HK\$M	Leasehold land and land use rights HK\$M
Net book value:		
At 1st January 2014	4,909	359
Translation differences	(43)	(6)
Change in composition of the Group	357	18
Additions and transfers	330	–
Disposals	(13)	–
Depreciation and amortisation	(239)	(6)
Provision for impairment losses	(23)	–
At 30th June 2014	5,278	365

9. INTANGIBLE ASSETS

	Goodwill HK\$M	Technical licences HK\$M	Customer relationships HK\$M	Others HK\$M	Total HK\$M
Net book value:					
At 1st January 2014	31	437	–	35	503
Translation differences	(3)	–	–	(1)	(4)
Change in composition of the Group	1,420	–	740	72	2,232
Additions	–	–	–	2	2
Amortisation	–	(13)	(21)	(14)	(48)
At 30th June 2014	1,448	424	719	94	2,685

10. JOINT VENTURE COMPANIES

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

	HAESL			Others			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2014 HK\$M	2013 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M	2013 HK\$M
At 1st January									
as originally stated	901	859	859	312	312	312	1,213	1,171	1,171
adjustment on adoption of HKAS19 revised	–	(15)	(15)	–	–	–	–	(15)	(15)
as restated	901	844	844	312	312	312	1,213	1,156	1,156
Translation differences	–	–	–	(9)	5	10	(9)	5	10
Disposal of a joint venture company	–	–	–	–	(17)	(17)	–	(17)	(17)
Share of profit	136	255	465	25	23	36	161	278	501
Share of other comprehensive income	1	(2)	18	–	–	–	1	(2)	18
Dividends received from joint venture companies	(127)	(233)	(426)	(8)	(6)	(29)	(135)	(239)	(455)
At period end	911	864	901	320	317	312	1,231	1,181	1,213

11. RETIREMENT BENEFITS

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

	Local Scheme HK\$M	Expatriate Scheme HK\$M	Total HK\$M
At 1st January 2014	270	63	333
Decrease due to:			
Charged to statement of profit or loss	(39)	–	(39)
Contributions paid	25	–	25
At 30th June 2014	256	63	319

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	30th June 2014 HK\$M	31st December 2013 HK\$M	30th June 2014 HK\$M	31st December 2013 HK\$M
Forward foreign exchange contracts				
– cash flow hedges	–	–	13	–
– not qualifying as hedges	18	27	2	–
Interest rate swaps				
– cash flow hedges	–	–	1	–
Total	18	27	16	–
Less: non-current portion				
Forward foreign exchange contracts				
– cash flow hedges	–	–	4	–
– not qualifying as hedges	5	11	2	–
Interest rate swaps				
– cash flow hedges	–	–	1	–
	5	11	7	–
Current portion	13	16	9	–

13. TRADE AND OTHER RECEIVABLES

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

	30th June 2014 HK\$M	31st December 2013 HK\$M
Trade receivables	939	834
Less: Provision for impairment of receivables	(69)	(59)
	870	775
Amounts due from joint venture companies	19	15
Amounts due from related parties	528	607
Other receivables and prepayments	568	648
	1,985	2,045
The analysis of the age of trade receivables (based on the invoice date) is as follows:		
Under three months	767	690
Between three and six months	65	33
Over six months	107	111
	939	834

14. TRADE AND OTHER PAYABLES

	30th June 2014 HK\$M	31st December 2013 HK\$M
Trade payables	439	289
Amounts due to joint venture companies	6	2
Amounts due to related parties	53	52
Accrued capital expenditure	50	38
Accruals	983	1,193
Other payables	296	301
	1,827	1,875
The analysis of the age of trade payables is as follows:		
Under three months	431	282
Between three and six months	7	4
Over six months	1	3
	439	289

Included within accruals are amounts for provisions for certain customer claims and other contingencies.

In accordance with the exemption allowed under paragraph 92 of HKAS 37, these amounts are not separately disclosed on the grounds that the Directors believe that doing so could be prejudicial to the eventual outcome of these claims.

15. DEFERRED TAXATION

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

	HK\$M
At 1st January 2014	220
Change in composition of the Group	10
Charged to statement of profit or loss	3
Credited to other comprehensive income	(3)
At 30th June 2014	230
Represented by:	
Deferred tax assets	(81)
Deferred tax liabilities	311
	230

16. SHARE CAPITAL

	Company	
	Number of shares	HK\$M
Ordinary shares of HK\$1.00 each		
Authorised:		
At 31st December 2013	210,000,000	210
At 30th June 2014	–	–
Issued and fully paid:		
At 1st January 2014	166,324,850	166
Transition to no-par value regime on 3rd March 2014	–	19
At 30th June 2014	166,324,850	185

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

On 3rd March 2014, the Companies Ordinance (Cap. 662) (the “New CO”) came into effect. This had the following results.

- The Company’s authorised share capital ceased to exist (by virtue of section 98(4) of the New CO).
- The Company’s shares ceased to have nominal or par value (by virtue of section 135 of the New CO).
- The amounts standing to the credit of the Company’s capital redemption reserve became part of the Company’s share capital (by virtue of paragraph 37 of Schedule 11 to the New CO).

The entitlements of the Company’s shareholders are unaffected by the Company’s shares ceasing to have nominal or par value as referred to in (b) above.

17. RESERVES

	Revenue reserve HK\$M	Capital redemption reserve HK\$M	Exchange translation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2014	5,703	19	210	(1)	5,931
Total comprehensive income for the period	283	–	(50)	(6)	227
Transition to no-par value regime on 3rd March 2014	–	(19)	–	–	(19)
2013 second interim dividend	(216)	–	–	–	(216)
At 30th June 2014	5,770	–	160	(7)	5,923

18. CAPITAL COMMITMENTS

	30th June 2014 HK\$M	31st December 2013 HK\$M
Outstanding capital commitments at the end of the period:		
Contracted for	164	3,194
Authorised by Directors but not contracted for	833	1,082
	997	4,276

19. FINANCIAL GUARANTEES

The Group has guaranteed loans of joint venture companies. At 30th June 2014, the face values of liabilities guaranteed were nil (31st December 2013: HK\$66 million).

20. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

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

Note	Joint venture companies			Immediate holding company			Other related parties			Total			
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	
	2014 HK\$M	2013 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M	2013 HK\$M	
Revenue from rendering of services	18	18	42	–	–	–	1,302	1,341	2,691	1,320	1,359	2,733	
	18	18	42	–	–	–	1,302	1,341	2,691	1,320	1,359	2,733	
Purchases of:													
Services from John Swire & Sons (H.K.) Limited under services agreement													
– Service fees payable during the period	<i>b</i>	–	–	–	–	–	9	10	17	9	10	17	
– Expenses reimbursed at cost	<i>b</i>	–	–	–	–	–	34	34	51	34	34	51	
Subtotal	<i>b</i>	–	–	–	–	–	43	44	68	43	44	68	
– Share of administrative services		–	–	–	–	–	1	1	4	1	1	4	
Total		–	–	–	–	–	44	45	72	44	45	72	
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		–	–	–	–	–	3	3	6	3	3	6	
Risk management service		–	–	1	1	1	–	–	–	1	1	1	
Services from Cathay Pacific Airways Limited Group	<i>b</i>	–	–	–	–	–	11	11	24	11	11	24	
Other services	<i>c</i>	12	9	26	–	–	12	15	30	24	24	56	
		12	9	26	1	1	1	70	74	132	83	84	159

Notes:

- Revenue from joint venture companies mainly came from the provision to HAESL of engine component repairs on a commercial arm's length basis. Revenue from other related parties mainly came from the provision of aircraft maintenance service.
- These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.
- Purchases from joint venture companies comprised mainly aircraft component overhaul charges by HAESL.
- Amounts due from and due to joint venture companies and other related parties at 30th June 2014 are disclosed in note 13 and note 14 to the accounts.

21. BUSINESS COMBINATION

On 6th February 2014, the Group acquired the entire issued share capital of TIMCO, a group of companies based in the United States, 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.

This acquisition will expand the Group's operations, broaden its sources of revenue and provide it with an opportunity to develop its business in one of the largest aviation markets in the world.

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

	HK\$M
Purchase consideration:	
Cash paid	2,876
The assets and liabilities arising from the acquisition are as follows:	
	Provisional fair value HK\$M
Property, plant and equipment	357
Leasehold land and land use rights	18
Intangible assets	812
Stocks of aircraft parts	323
Work in progress	113
Cash and cash equivalents	142
Trade and other receivables	395
Trade and other payables	(476)
Taxation payable	(10)
Loans	(208)
Deferred tax liabilities	(10)
Identifiable net assets acquired	1,456
Goodwill	1,420
	2,876
	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

21. BUSINESS COMBINATION (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\$365 million. The contractual amount of the trade receivables due was HK\$377 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 and HK\$4 million have been recognised in the consolidated statements of profit or loss for the year ended 31st December 2013 and for the six months ended 30th June 2014 respectively.

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\$ nil. This is a level 3 fair value measurement.

The acquired business contributed revenue of HK\$1,308 million and a net loss of HK\$3 million to the Group for the period from 6th February 2014 to 30th June 2014. If the acquisition had occurred on 1st January 2014, the consolidated revenue and consolidated net profit for the six months ended 30th June 2014 would have been, on a pro-forma basis, HK\$5,694 million and HK\$334 million respectively.

22. EVENT AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date the Group received a claim for HK\$42 million from a third party in respect of rent obligations. These obligations are disputed. No provision is recognised for this contingency at 30th June 2014.

Supplementary Information

CORPORATE GOVERNANCE

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

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

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

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

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

DIRECTORS’ PARTICULARS

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

1. J.R. Slosar was appointed as a Non-Executive Director of The Hongkong and Shanghai Banking Corporation Limited with effect from 12th May 2014. He was also appointed as a Non-Executive Director of Air China Limited with effect from the conclusion of its annual general meeting held on 22nd May 2014.
2. P.P.W. Tse was appointed as an Independent Non-Executive Director of The Link Management Limited, which is the manager of The Link Real Estate Investment Trust, with effect from 24th July 2014.
3. L.K.K. Leong has been appointed as Acting Chief Executive Officer of MTR Corporation Limited with effect from 16th August 2014.

DIRECTORS' INTERESTS

At 30th June 2014, 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			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
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			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
John Swire & Sons Limited						
Ordinary Shares of £1						
M.B. Swire	3,140,523	–	19,222,920	22,363,443	22.36	3
8% Cum. Preference Shares of £1						
M.B. Swire	846,476	–	5,655,441	6,501,917	21.67	3

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Swire Pacific Limited						
'A' shares						
P.A. Johansen	31,500	–	–	31,500	0.0035	
'B' shares						
P.A. Johansen	200,000	–	–	200,000	0.0067	
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	475,000	475,000	0.0159	2

	Capacity			Total no. of shares	Percentage of issued capital (%)
	Beneficial interest		Trust interest		
	Personal	Family			
Swire Properties Limited					
Ordinary Shares					
P.A. Johansen	50,050	–	–	50,050	0.00086

Notes:

- The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.*
- The Hon. Sir Michael David Kadoorie is one of the discretionary objects of the discretionary trusts which ultimately hold these shares.*
- 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).

SUBSTANTIAL SHAREHOLDERS' AND OTHER INTERESTS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2014 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
3. Aberdeen Asset Management plc	10,037,200	6.03	Attributable interest	3

Notes:

At 30th June 2014:

- Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner.*
- John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 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 48.10% of the issued share capital and approximately 60.63% of the voting rights.*
- Aberdeen Asset Management plc was interested in the shares in its capacity as investment manager. These included shares in which wholly-owned controlled corporations of Aberdeen Asset Management plc were interested.*

Financial Calendar and Information for Investors

FINANCIAL CALENDAR 2014

Interim Report available to shareholders	27th August 2014
Shares trade ex-dividend	27th August 2014
Share register closed for first interim dividend entitlement	29th August 2014
Payment of 2014 first interim dividend	16th September 2014
Annual results announcement	March 2015
Annual General Meeting	May 2015

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