Hong Kong
Aircraft Engineering
Company Limited

Annual Report 2014

Stock Code: 00044

HAECO

ABOVE & BEYOND

Hong Kong Aircraft Engineering Company Limited ("HAECO") has launched a new corporate identity. The new, singular identity represents the depth of HAECO Group's capabilities, the breadth of its international network and the strength of its integrated services.

The HAECO Group's subsidiaries and joint venture companies around the world, including Hong Kong Aircraft Engineering Company Limited in Hong Kong ("HAECO Hong Kong"), Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen") and HAECO USA Holdings, Inc. ("HAECO Americas"), now stand proudly behind one name: HAECO.

One Group. Full Services.

Airframe Services
Offers airframe maintenance, cabin reconfiguration, structural modification, freighter conversion fulfillment, as well as line services covering transit checks and certification, defect clearance, cabin management, ramp services and 24/7 aircraft-on-ground support across Asia and the United States.

Cabin Solutions
Provides turnkey cabin integration solutions for commercial aircraft and private jets, covering design engineering, certification and vendor management. The Group is an authorised aircraft seat and cabin interior products original equipment manufacturer.

Component Services
Provides component repair and overhaul services for hydraulic, mechanical, avionics and pneumatic systems across the Airbus and Boeing commercial aircraft fleets, and with wheels and brakes, tyres, aerostructures, landing gear and auxiliary power units through the Group's subsidiaries and joint ventures facilities.

Engine Services
Operates world-class repair, overhaul and testing facilities for Rolls-Royce RB-211 and Trent engines in Hong Kong, a GE Aviation-authorised GE-90 facility in Xiamen, Mainland China, and a Pratt & Whitney JT8D facility in Oscoda, Michigan in the United States.

Your resourceful partner for world-class aircraft engineering and maintenance solutions.

Our Vision
To be the best-in-class service provider of aircraft engineering and maintenance solutions – recognised for technical expertise, operational excellence and the determination to deliver.

Our Mission
We firmly believe that delivering aircraft engineering and maintenance solutions above and beyond expectations is fundamental to safe and enjoyable skies.

Financial Highlights

		2014	2013	Change
Results				
Revenue	*HK$ Million*	**11,927**	7,387	+61.5%
Net operating profit	*HK$ Million*	**439**	228	+92.5%
Share of after-tax results of joint venture companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	*HK$ Million*	**267**	465	-42.6%
– Other joint venture companies	*HK$ Million*	**47**	36	+30.6%
Profit attributable to the Company's shareholders	*HK$ Million*	**573**	625	-8.3%
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	*HK$*	**3.45**	3.76	-8.3%
Total dividends per share	*HK$*	**2.10**	2.10	–
Financial Position				
Net borrowings	*HK$ Million*	**2,610**	193	+1,252.3%
Gearing ratio	*%*	**35.3**	2.6	+32.7%pt
Total equity	*HK$ Million*	**7,387**	7,326	+0.8%
Equity attributable to the Company's shareholders per share	*HK$*	**36.49**	36.66	-0.5%
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	**1,115**	505	+120.8%
Net cash (outflow)/inflow before financing activities	*HK$ Million*	**(2,211)**	522	-523.6%

Note:
The average number of shares in issue is 166,324,850 in 2014 (2013: 166,324,850).
Additional financial information about the Group's joint venture companies is presented on pages 89 to 91.

Contents

Chairman's Letter

The HAECO Group reported an attributable profit of HK$573 million in 2014. This compares with a profit of HK$625 million in 2013. Earnings per share decreased by 8.3% to HK$3.45. Revenue increased by HK$4,540 million to HK$11,927 million. The acquisition of TIMCO Aviation Services, Inc. in February 2014 accounted for HK$2,885 million of the increase in revenue.

The Directors have declared a second interim dividend of HK$1.45 per share for the year ended 31st December 2014. Together with the first interim dividend of HK$0.65 per share paid on 16th September 2014, this results in total dividends for the year of HK$2.10 per share and represents a total distribution of HK$349 million, the same as that made in respect of 2013. The second interim dividend, which totals HK$241 million (2013: HK$216 million), will be paid on 28th April 2015 to shareholders on the register at the close of business on 2nd April 2015. Shares of the Company will be traded ex-dividend as from Tuesday, 31st March 2015.

Demand for line services of HAECO in Hong Kong ("HAECO Hong Kong") was stable. Airframe maintenance results in Hong Kong continued to be adversely affected by capacity constraints caused by labour shortages though these eased in the second half of the year. More staff were employed but it takes time to train them. Demand for component and avionics overhaul services in Hong Kong fell substantially as a result of the retirement of Boeing 747-400 aircraft. However, cost savings achieved through stringent cost control helped improve the overall performance of HAECO Hong Kong. The performance of Hong Kong Aero Engine Services Limited ("HAESL") was badly affected by the retirement of Airbus A340 and Boeing 747-400 aircraft and by a reduction in the frequency of scheduled maintenance for Trent 700 engines.

HAECO USA Holdings, Inc. ("HAECO Americas") completed the acquisition of TIMCO Aviation Services, Inc. in February 2014. HAECO Americas recorded a loss for the period following the acquisition. This principally reflected the costs of reducing the size of a seat manufacturing facility in California and the finance charges associated with the acquisition. HAECO Americas' airframe maintenance services produced good results. Its cabin and seat business was adversely affected by the deferral of some work.

The profit of Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen") decreased slightly. It did less airframe maintenance work and more private jet conversion work. Revenue and profit of Taikoo Engine Services (Xiamen) Company Limited ("TEXL") increased substantially as more engines and components were overhauled. The profit of HAECO ITM Limited ("HAECO ITM") increased in 2014, due to a higher utilisation of rotable parts as its operations increased. Taikoo (Xiamen) Landing Gear Services Company Limited ("HAECO Landing Gear Services") resumed landing gear overhaul work for customers in April 2014. It reported a higher loss in 2014 than in 2013 because the 2013 results included income from a business interruption insurance policy. HAECO Component Overhaul (Xiamen) Limited ("HAECO Component Overhaul (Xiamen)") started operations in May 2014 and incurred a loss. This reflected staff training and start-up costs. The overall contribution from the Group's other joint ventures in Mainland China improved.

The Group continued to invest in order to increase the scale of its operations and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure for 2014 was HK$3,613 million (including expenditure on the acquisition of TIMCO Aviation Services, Inc. of HK$2,942 million). Capital expenditure committed at the end of the year was HK$1,292 million.

Prospects

As training of new recruits progresses, airframe maintenance capacity in Hong Kong will increase in 2015. Demand for line services in Hong Kong is expected to fall as a result of the loss of a portion of the work from a significant customer in 2014. Demand for HAECO Americas' airframe maintenance services is expected to weaken. The performance of its cabin and seat business is expected to improve. Demand for HAECO Xiamen's airframe maintenance services is expected to improve, but less private jet conversion work is expected. HAESL's performance will continue to be adversely affected by the retirement of Airbus A340 and Boeing 747-400 aircraft and by the reduction in the frequency of scheduled maintenance for Trent 700 engines. TEXL is expected to continue to perform well.

The municipal government of Xiamen's proposal to develop a new airport at Xiang'an is being evaluated by the National Development and Reform Commission in Beijing. The timing of the development of the new airport and its impact on the operations of HAECO Xiamen and other HAECO Group companies at the existing airport are not clear. Management maintains regular communication with the local authorities in order to understand the likely path of development.

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 for jobs well done.

John Slosar
Chairman
Hong Kong, 17th March 2015

HAECO's Strategy

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.

HAECO Group Service Locations

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.

HAECO Group Services	Hong Kong	U.S.	Mainland China	Singapore
Airframe Services	■	■	■	■
Cabin Solutions	■	■	■	
Component Services	■		■	
Engine Services	■	■	■	■

2014 in Review

Airframe Services

2014 was an eventful year for the HAECO Group. In February, the acquisition of TIMCO Aviation Services, Inc. was completed, so extending the Group's aircraft maintenance services to the United States and expanding its technical capabilities. In September, GE Aviation acquired a 9.9% equity interest in TEXL. In October, a new corporate identity was introduced. This is intended to portray the depth of the Group's capabilities, the breadth of its international network and the strength of its services.

Airframe Services

Airframe Services

- In May, HAECO Hong Kong started to do work for American Airlines on up to 47 Boeing 777-200 aircraft. The interiors of the aircraft will be retrofitted and communications and nitrogen generation systems will be installed. In July, HAECO Hong Kong entered into an agreement with United Airlines to undertake ground fault interrupter modifications on its Boeing 777-200 aircraft. Ground fault interrupters provide additional protection against fire in fuel tanks.

- The table below summarises HAECO Americas' airframe services capabilities.

Approval authority	Aircraft type	Location
United States Federal Aviation Administration ("FAA") 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

Approval authority	Aircraft type	Location
European Aviation Safety Agency ("EASA")	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 April, HAECO Americas completed the last of 123 installations of Panasonic global communications suites in United Airlines Airbus A319 and A320 aircraft and the last of 114 cabin modifications for Bombardier CRJ700 aircraft belonging to United Airlines regional airlines. In May, it completed the last of 18 interior modifications for Delta Air Lines Boeing 777-200 aircraft. In October, it completed the VIP modification of a Boeing 767-300 aircraft for an Equatorial Guinean customer. In November, it completed the last of 38 cabin modifications for Bombardier CRJ200 aircraft belonging to a North American airline. In December, it completed the second to last of 73 interior modifications for Alaska Airlines Boeing 737-800 and 737-900 aircraft and completed the last of 152 cabin modifications for Airbus A319 and A320 aircraft belonging to United Airlines. HAECO Americas will start to modify cabins for Air Canada Boeing 777-200 and 777-300 aircraft in 2015.

Airframe Services (continued)

- During 2014, HAECO Xiamen obtained approvals from the civil aviation authority of the Cayman Islands for airframe maintenance work on Boeing 737NG aircraft and from FAA for airframe maintenance work on Boeing 777 aircraft. In January, it modified the cabin of a 777-300ER aircraft for All Nippon Airways. All Nippon Airways has contracted HAECO Xiamen to retrofit the interiors of five more aircraft. In February, Air Astana contracted HAECO Xiamen to undertake C-checks on 37 Airbus A320 and 13 Boeing 757-200 aircraft. In July, HAECO Xiamen completed the last of nine cabin modifications for Boeing 767 aircraft belonging to Japan Airlines. In September, it started to provide airframe maintenance services for United Airlines. In October, it completed its first passenger to freighter conversion for DHL.

- In 2014, Taikoo (Shandong) Aircraft Engineering Company Limited ("STAECO") obtained approval from the civil aviation authority of Mainland China ("CAAC") to perform passenger to freighter conversions on Boeing 737-400 aircraft and to refit a pressure floor on a Bombardier CRJ700 aircraft. In May, STAECO completed the third and fourth of six lease-return checks on Boeing 737-NG aircraft being done under a contract with China Eastern Engineering and Technical Company. The lessees were Shanghai Airlines and China Eastern Airlines.

Line Services

- In July, HAECO Hong Kong provided line maintenance and ramp services to the first Airbus A350 aircraft to land at Hong Kong International Airport ("HKIA"). The aircraft was doing route proving exercises in Asia and transited HKIA five times.

- HAECO Americas has 19 line services stations in the United States. In 2014, it opened line services stations for Icelandair in Anchorage, Washington, D.C. and Sanford and for Air Canada in San Francisco. China Airlines Cargo, TACV Cabo Verde Airlines and Austrian Airlines became customers in 2014.

- During the year, Shanghai Taikoo Aircraft Engineering Services Company Limited ("HAECO Shanghai") received approval from the civil aviation authorities of the Philippines, Indonesia and Japan and from EASA to provide line services for certain Airbus and Boeing aircraft.
- STAECO (Beijing) Business Jet Maintenance Company Limited, a new joint venture formed by STAECO, provides line services for private jets at Beijing Capital International Airport.

- HAECO Xiamen obtained the following approvals in 2014 to provide line services in Mainland China:

Approval authority	Aircraft type	Location
FAA	Boeing 777	Tianjin
Hong Kong Civil Aviation Department	Airbus A320 and A330	Tianjin
	Airbus A320, A330 and Boeing 747	Zhengzhou
Civil Aviation Authority of Sri Lanka	Airbus A320 and A330	Chongqing
Malaysia Department of Civil Aviation	Airbus A330 and A340	Chongqing

- In 2014, HAECO Xiamen contracted with Thai Air Asia, THAI Smile and Sri Lankan Airlines to provide line services for Airbus A320 aircraft in Chongqing. In September, the company opened a line services station in Zhengzhou.

Asia

Hong Kong | Beijing | Chengdu | Chongqing | Jinan | Nanjing | Shanghai | Tianjin | Xiamen | Zhengzhou | Singapore

U.S.

Anchorage | Boston | Burbank | Cincinnati | Denver | Fort Myers | Greensboro | Lake City | Macon | Minneapolis | New York | Newark | Omaha | Orlando | Panama City | Phoenix | San Francisco | Sanford | Seattle | Washington, D.C. | White Plains


HAECO

Cabin Solutions

Cabin Solutions

Cabins and Seats

- In 2014, HAECO Americas reconfigured the cabin of a Cathay Pacific Airbus A330-300 aircraft, shipped integration kits for in-flight entertainment systems for 12 Flydubai Boeing 737-800 aircraft and 10 Lion Air Airbus A320 and Boeing 737 aircraft, shipped integration kits providing power supplies for portable electronic devices for 22 Alaska Airlines Boeing 737-900 aircraft and started engineering work preparatory to reconfiguring the cabins of 18 Air Canada Boeing 777 aircraft and 53 Cathay Pacific Boeing 777 aircraft. HAECO Americas also obtained supplemental type certificates enabling it to modify the cabins of Alaska Airlines Boeing 737 aircraft and Delta Air Lines Boeing 777-200 aircraft.
- In 2014, HAECO Americas sold premium economy class seats for installation in Boeing 787 aircraft operated by Thomson Airways, Scoot and Azerbaijan Airlines. It is developing a new seat (called Vector) which will be introduced in the second quarter of 2015.

Private Jet Work

- In January, HAECO Xiamen obtained a supplemental type certificate from EASA enabling it to do a VIP reconfiguration of the cabin of an Airbus A319 aircraft. In May, it obtained a supplemental type certificate from FAA enabling it to reconfigure the cabins of Boeing 737-300 aircraft.
- HAECO Private Jet Solutions, LLC ("HAECO PJS (San Antonio)") has been authorised by FAA to produce and sell parts to aircraft operators and aircraft parts distributors.

Asia
Hong Kong | Xiamen

U.S.
Atlanta | Greensboro | Pacoima | San Antonio | Seattle | Wallburg


3M
OPTIME
101

Component Services

Component Services

Component Repair and Overhaul

- In April, HAECO Landing Gear Services resumed landing gear overhaul work for customers. The plating workshop is being rebuilt. This work is expected to be completed in the second half of 2015.
- In May, HAECO Component Overhaul (Xiamen) obtained approval from EASA to repair and overhaul 400 part types. It can repair and overhaul hydraulic, mechanical, avionics and pneumatic systems for Airbus and Boeing aircraft.
- In 2014, Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("HAECO Spirit AeroSystems") became capable of repairing the nacelles of CFM56-5B engines on Airbus A320 aircraft and obtained approvals to repair flight controls on Airbus A320 and Boeing 737NG aircraft.
- In 2014, Goodrich Asia-Pacific Limited ("GAP") obtained wheel and brake repair work to be done over the next few years. It plans to relocate to a larger workshop in 2015 in order to accommodate the extra work.

Inventory Technical Management

- In 2014, HAECO ITM was appointed as a provider of inventory technical management (component pool access, component repair and overhaul and aircraft-on-ground, warehouse and logistics support) for Hong Kong Jet's Airbus A319CJ aircraft and was contracted to provide inventory technical management service for a Boeing 737NG aircraft operator and to provide component support and repair management services for AirBridgeCargo. In December, HAECO ITM entered into an agreement with China Airlines to provide inventory technical management service for the airline's Boeing 777-300ER fleet, up to 10 aircraft.

Asia

Hong Kong | Jinjiang | Xiamen


TEXL

Engine Services

Engine Services

- In 2014, HAESL obtained approvals from Rolls-Royce to carry out additional repairs on compressor and turbine stub shafts for RB211-524 and Trent 900 engines.It expects to develop the capability to repair Trent XWB engines in 2015.
- During the year, TEXL obtained approvals from EASA and CAAC to do full performance restorations on GE90-110B and GE90-115B high pressure compressors, low pressure compressors and low pressure turbines and to repair GE90 components from engines being reworked in non-TEXL facilities. Two new customers, Egypt Air and Ethiopian Airlines, had overhaul work done in TEXL during the year.

- HAECO Americas overhauls engines for United States and Canadian cargo airlines using Pratt & Whitney JT8D engines. In 2014, it overhauled 50 engines and sold four engines.

Asia

Hong Kong | Xiamen | Singapore

U.S.

Oscoda

Review of Operations

HAECO Hong Kong, HAECO Americas and HAECO Xiamen sold 9.67 million airframe services manhours in 2014. HAECO Americas sold 3.66 million manhours in the period following the acquisition in February (compared with 3.55 million manhours in the equivalent period in 2013). HAECO Hong Kong sold 2.46 million manhours (compared with 2.56 million manhours in 2013). HAECO Xiamen sold 3.55 million manhours (compared with 3.68 million manhours in 2013).

Demand for HAECO Hong Kong's line services was stable.

TEXL overhauled 71 engines in 2014, compared with 59 engines in 2013. HAESL overhauled 147 engines in 2014, compared with 193 engines in 2013.

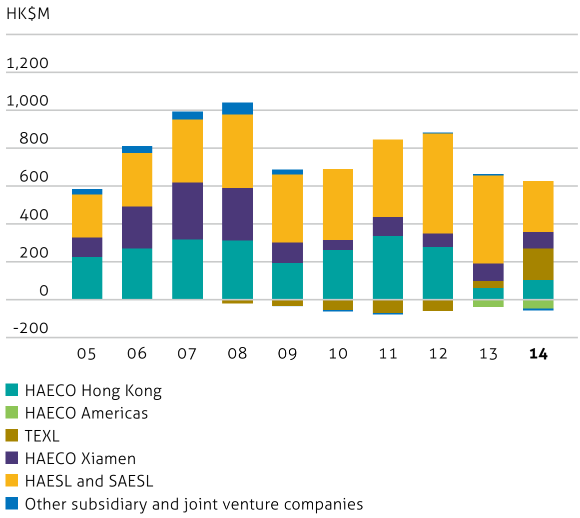
The profit attributable to the Company's shareholders comprises:

	2014	2013	Change
	HK$M	HK$M	
HAECO Hong Kong	**103**	60	+71.7%
HAECO Americas	**(45)**	(35)	-28.6%
TEXL	**166**	39	+325.6%
HAECO Xiamen	**89**	90	-1.1%
Share of:			
HAESL and SAESL	**267**	465	-42.6%
Other subsidiary and joint venture companies	**(7)**	6	-216.7%
	573	625	-8.3%

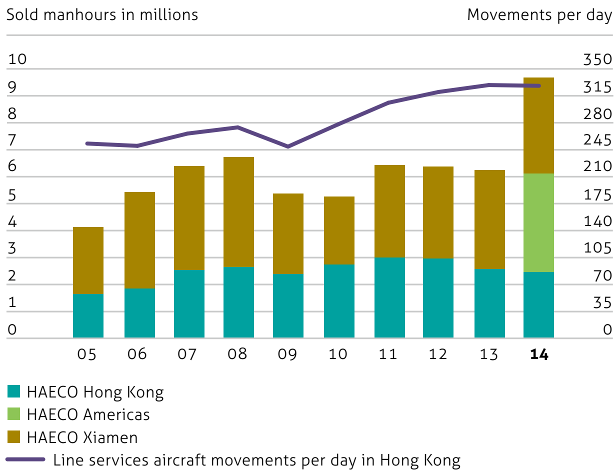
The key operating highlights are as follows:

	2014	2013	Change
Airframe services sold manhours (in millions)			
HAECO Hong Kong	**2.46**	2.56	-3.9%
HAECO Americas	**3.66**	N/A	N/A
HAECO Xiamen	**3.55**	3.68	-3.5%
	9.67	6.24	+55.0%
Line services aircraft movements (per day)			
HAECO Hong Kong	**328**	329	-0.3%
HAECO Xiamen	**41**	43	-4.7%
HAECO Shanghai	**49**	43	+14.0%
Engine output (per year)			
TEXL – performance restoration	**37**	19	+94.7%
TEXL – quick turn repair	**34**	40	-15.0%
HAESL	**147**	193	-23.8%

Attributable Profits by Company



Airframe Services Sold Manhours and Line Services Aircraft Movements



HAECO Hong Kong

HAECO Hong Kong's business comprises airframe services, line services at the passenger and cargo terminals at HKIA, component services, material management and fleet technical management.

Airframe Services

HAECO Hong Kong 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 2.56 million in 2013 to 2.46 million in 2014. More workers were recruited and fewer left. But it takes time to train new workers, so capacity was still constrained. Approximately 71.6% of the work was for airlines based outside Hong Kong. Airframe services capacity is expected to increase in 2015.

Line Services

HAECO Hong Kong undertakes technical and non-technical line services for airlines operating at HKIA. Line services manhours increased by 2.4% despite the average number of aircraft movements handled by HAECO Hong Kong decreasing by 0.3% from 2013 to 328 per day. Demand for line services in 2015 is expected to decrease as a result of the loss of a portion of the work from a significant customer in 2014.

Component Services

HAECO Hong Kong overhauls components and avionics at Tseung Kwan O in Hong Kong. Manhours sold were 0.225 million compared with 0.265 million in 2013. The decrease reflected a significant reduction of work on components of Boeing 747-400 aircraft as these aircraft were retired.

Cost savings achieved through stringent cost control helped improve the overall performance of HAECO Hong Kong.

HAECO Hong Kong employed 5,734 staff at the end of 2014, 4.4% more than at the end of 2013. The increase principally reflects recruitment of trainees.

HAECO Americas

In February 2014, the acquisition of 100% of the shares in TIMCO Aviation Services, Inc. was completed for a consideration of US$370.4 million (HK$2,876 million) and repayment of its bank and external loans of US$26.8 million (HK$208 million), offset by cash and cash equivalents of US$18.3 million (HK$142 million). The principal activity of HAECO Americas is the provision of aircraft technical services in the United States – airframe services, line services, engine services, cabin integration and the manufacture of aircraft interior products (including seats). HAECO Americas recorded revenue of HK$2,885 million and a loss of HK$45 million in 2014. The loss principally reflected the costs of reducing the size of a seat manufacturing facility in California and finance charges associated with the acquisition.

Airframe, Line and Engine Services

Demand for HAECO Americas' airframe services was strong in 2014, with 3.66 million manhours sold in the period following the acquisition, 0.11 million more than those in the corresponding period of 2013. HAECO Americas opened four line services stations in 2014. It has line services stations at 19 airports in the United States. Demand for Pratt & Whitney JT8D engine overhaul work was steady. 50 engines were overhauled and four were sold.

Cabins and Seats

In 2014, HAECO Americas worked on 44 cabin integration programmes and shipped approximately 8,600 premium economy and economy class seats. The results were adversely affected by the deferral of some work and the costs of reducing the size of a seat manufacturing facility in California.

HAECO Americas employed 2,894 staff at the end of 2014.

TEXL

TEXL (owned 67.58% by HAECO and 9.01% by HAECO Xiamen after the acquisition of a 9.9% equity interest in TEXL by GE Aviation) has an engine overhaul facility in Xiamen. It has a service agreement with General Electric under which it provides maintenance, repair and overhaul services for GE90-110B and GE90-115B engines. In 2014, TEXL completed 34 quick turn repairs on GE90 aircraft engines (26 of them being heavy or medium repairs) and 37 performance restorations on such engines, compared with 40 quick turn repairs and 19 performance restorations in 2013. TEXL also did high pressure turbine shroud and vane replacements, low pressure turbine disc and blade replacements and turbine centre frame modifications. More engines overhauled and more work done per engine increased revenue and profits significantly in 2014.

Aircraft powered by GE90-110 and GE90-115 engines are getting older. This means more overhaul work on the engines. Demand for TEXL's overhaul services is expected to remain firm in 2015.

HAECO Xiamen

HAECO Xiamen's businesses comprise airframe services, line services, private jet work, parts manufacturing and technical training. It has 11 bays for airframe services and one bay for private jet work. In 2014, it performed less airframe work and more private jet work.

Airframe Services

Demand for airframe services was stable in the first half of 2014 but weakened in the second half. Demand for passenger to freighter conversions of narrow-body aircraft was stable. Four such aircraft were converted in 2014. No wide-body aircraft were converted. The outlook for conversions of narrow-body aircraft is stable. The outlook for conversions of wide-body aircraft is poor.

Manhours sold in 2014 were 3.55 million, 3.5% less than in 2013.

Line Services

HAECO Xiamen provides line maintenance services in Xiamen, Beijing, Tianjin, Chongqing and Zhengzhou. It handled an average of 41 aircraft movements per day in 2014.

Private Jet Work

Revenue and profit from private jet work increased significantly in 2014. Work was completed on a second Airbus A319 aircraft in August. A substantial part of the work on a third such aircraft was done in 2014. The aircraft was redelivered to the customer in January 2015.

Parts Manufacturing and Technical Training

Parts manufacturing revenue increased by 31.1% in 2014. Revenue from training was comparable with 2013. HAECO Xiamen's training centre conducted 450 external training classes for approximately 6,500 students from Mainland China, Hong Kong, Taiwan and Southeast Asia. HAECO Xiamen conducted over 2,500 examinations for CCAR-66 and EASA Part-66 certifications for external candidates.

HAECO Xiamen employed 4,902 staff at the end of 2014, 3.7% fewer than at the end of 2013.

New Airport in Xiamen

The municipal government of Xiamen's proposal to develop a new airport at Xiang'an is being evaluated by the National Development and Reform Commission in Beijing. The timing of the development of the new airport and its impact on the operations of HAECO Xiamen and other HAECO Group companies at the existing airport are not clear. Management maintains regular communication with the local authorities in order to understand the likely path of development.

HAESL

HAESL (45% owned by HAECO) repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. The company recorded a 47.0% decrease in profit in 2014 compared to 2013. Fewer engines were overhauled and less work was done per engine. This reflected the retirement of aircraft operating RB211-524 and Trent 500 engines and a reduction in the frequency of scheduled maintenance of Trent 700 engines. Engine output was 147 in 2014 compared with 193 in 2013. Until Trent XWB engines start to generate revenue in 2016, HAESL's financial performance is expected to continue to be adversely affected by reduced demand for its 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"), decreased by 42.6% in 2014 to HK$267 million.

Other Principal Subsidiary and Joint Venture Companies

- HAECO ITM (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 2014 was 257, an increase of 11.3% from the number in 2013. A higher profit was recorded in 2014 due to a higher utilisation of rotable parts as its operations increased.
- HAECO Landing Gear Services (owned 63.80% by HAECO and 10% by HAECO Xiamen) overhauls landing gear in Xiamen. It resumed landing gear overhaul work for customers in April 2014. It reported a higher loss in 2014 as the results in 2013 included income from a business interruption insurance policy.
- HAECO Component Overhaul (Xiamen) (100% owned) started operations in May 2014. It incurred a loss in 2014, principally reflecting training and pre-operating expenses.
- HAECO Shanghai (owned 60% by HAECO and 15% by HAECO Xiamen) provides line services in Shanghai and Nanjing. The average number of aircraft movements handled per day was 49 in 2014, 14.0% higher than in 2013. Profit increased accordingly.
- Singapore HAECO Pte. Limited ("HAECO Line Services (Singapore)") (100% owned) provides line services in Singapore. It broke even in 2014, having made a loss in 2013. The number of staff employed and costs were reduced.
- HAECO PJS (San Antonio) (owned 90.01% by HAECO) provides certification, engineering design and programme management for cabin completion and reconfiguration in the United States. It recorded a small loss in 2014.
- GAP (49% owned by HAECO) refurbishes carbon brakes and wheel hubs in Hong Kong. In 2014, it recorded a slight increase in profit as a result of higher sales volume.
- HAECO Spirit AeroSystems (owned 41.8% by HAECO and 10.76% by HAECO Xiamen) repairs and overhauls composite structures at Jinjiang in Fujian Province in Mainland China. It did more work in 2014 and recorded a profit for the first time.
- Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited (owned 28% by HAECO and 9% by HAECO Xiamen) sells and retreads aircraft tyres at Jinjiang in Fujian Province in Mainland China. It broke even in 2014. It sold more tyres but offset by an increased staff cost.
- Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited (35% owned by HAECO Xiamen) overhauls fuel control systems and pumps in Xiamen. It did less work in 2014. Profits decreased accordingly.
- Honeywell TAECO Aerospace (Xiamen) Company Limited (owned 25% by HAECO and 10% by HAECO Xiamen) overhauls auxiliary power units and other rotable spares. It made a small loss in 2014 because of higher repair costs.
- STAECO (owned 30% by HAECO and 10% by HAECO Xiamen) undertakes airframe maintenance, passenger to freighter conversions and line services at Jinan in Shandong Province in Mainland China for Boeing 737 and other narrow-body aircraft. Profits increased in 2014 as a result of lower material costs.

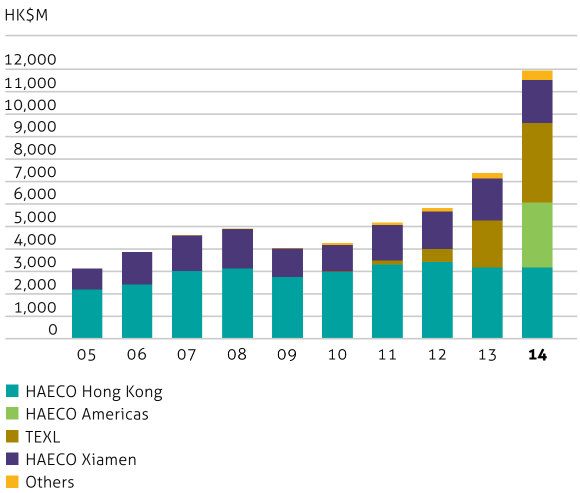
Financial Review

Revenue

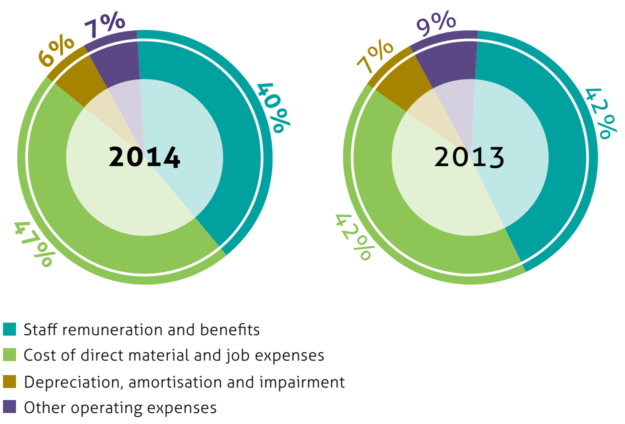
Revenue increased by 61.5% (22.4% excluding HAECO Americas) to HK$11,927 million. HAECO Hong Kong, TEXL and HAECO Xiamen recorded increases in revenue, as shown in the table below.

	2014 HK$M	2013 HK$M	Change
HAECO Hong Kong	**3,178**	3,169	+0.3%
HAECO Americas	**2,885**	N/A	N/A
TEXL	**3,538**	2,095	+68.9%
HAECO Xiamen	**1,924**	1,860	+3.4%
Others	**402**	263	+52.9%
	11,927	7,387	+61.5%

Revenue



Operating Expenses



Operating Expenses

Operating expenses increased by 58.5% to HK$11,424 million, principally reflecting the addition of costs incurred by HAECO Americas. The increase in staff remuneration and benefits also reflected salary increases in Mainland China and Hong Kong. The increase in the cost of direct material and job expenses also reflected the increase in business volume at TEXL.

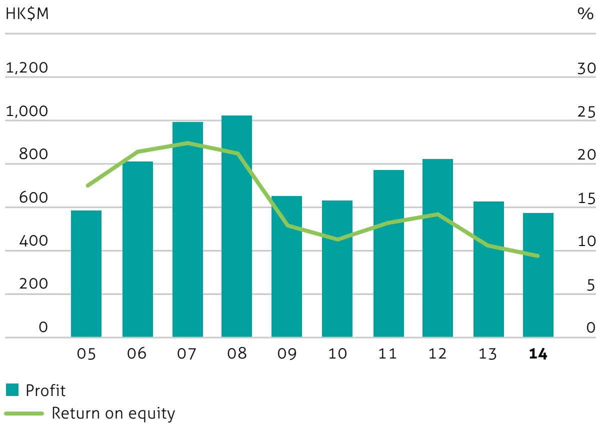
	2014 HK$M	2013 HK$M	Change
Staff remuneration and benefits	**4,573**	3,053	+49.8%
Cost of direct material and job expenses	**5,322**	3,039	+75.1%
Depreciation, amortisation and impairment	**639**	488	+30.9%
Other operating expenses	**890**	628	+41.7%
	11,424	7,208	+58.5%

Profit

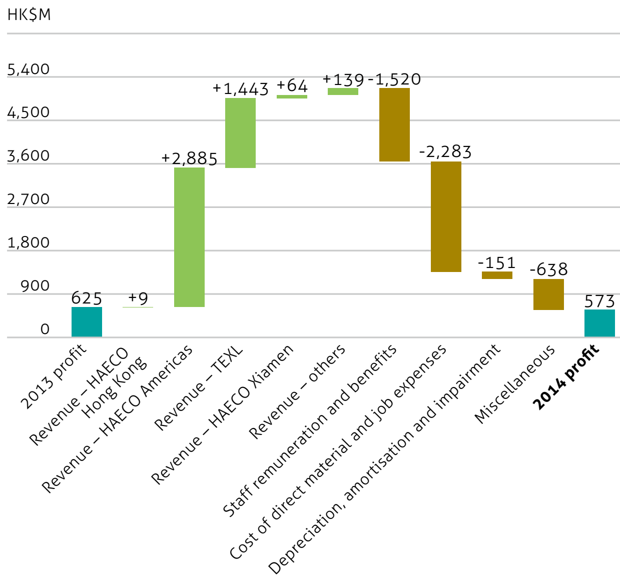
The change in profit attributable to the Company's shareholders can be analysed as follows:

	HK$M	
2013 profit	625	
Revenue		
HAECO Hong Kong	9	The increase principally reflects an increase in line services revenue largely offset by a 3.9% reduction in airframe services manhours sold and a reduction in component services work. The reduction in airframe services manhours sold reflects capacity constraints.
HAECO Americas	2,885	The revenue mainly came from airframe services and cabin and seats work.
TEXL	1,443	The growth resulted from a significant increase in engine repair work.
HAECO Xiamen	64	The increase principally reflects higher revenue from private jet work.
Others	139	The increase principally reflects growth in business volume at HAECO ITM.
Staff remuneration and benefits	(1,520)	The increase principally reflects the inclusion of HAECO Americas staff costs and salary increases in Mainland China and Hong Kong.
Cost of direct material and job expenses	(2,283)	The increase principally reflects growth in business volume at TEXL and the inclusion of HAECO Americas costs.
Depreciation, amortisation and impairment	(151)	The increase mainly reflects depreciation of property, plant and equipment belonging to HAECO Americas and amortisation of intangible assets arising from the acquisition of TIMCO Aviation Services, Inc.
Other operating expenses	(262)	The increase principally reflects the inclusion of HAECO Americas other operating expenses and higher rental expenses at HAECO Hong Kong.
Net finance charges	(32)	The increase was principally the costs of financing the acquisition of TIMCO Aviation Services, Inc.
Share of after-tax results of joint venture companies	(187)	The decrease principally reflects a lower profit from HAESL.
Taxation	(61)	The increase reflects a higher tax charge at HAECO Xiamen (the 2013 charge having been reduced by deferred tax movements).
Other items	(81)	These items include foreign exchange losses at HAECO Xiamen, compared to a corresponding mark-to-market foreign exchange gains in 2013.
Non-controlling interests	(15)	The increase reflects higher profits at TEXL.
2014 profit	**573**	

Profit Attributable to the Company's Shareholders



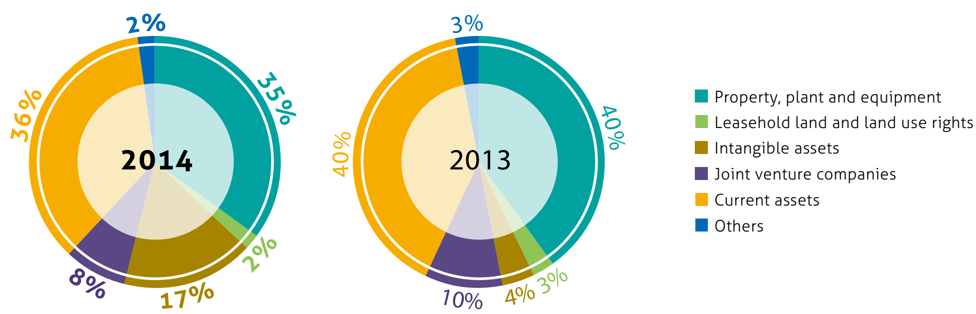
Movement of Profit Attributable to the Company's Shareholders



Assets

Total assets at 31st December 2014 were HK$15,044 million. During the year, additions to fixed assets were HK$1,883 million. Included in this amount was HK$1,205 million arising from the consolidation of HAECO Americas, HK$237 million spent on plant, machinery and tools and HK$331 million spent on rotable and repairable spares for inventory technical management.

Total Assets



Financing

Capital Structure

The Group aims to maintain a capital structure which safeguards its ability to operate as a going concern and enables it to provide returns for shareholders and to secure access to finance at a reasonable cost.

Net debt and gearing

At 31st December 2014, the Group's net borrowings were HK$2,610 million (representing an increase of HK$2,417 million from that at 31st December 2013), with a gearing ratio of 35.3%. The increase in net borrowings principally reflects bank loans to finance the acquisition of TIMCO Aviation Services, Inc. The Group's net debt by company is analysed below:

	2014 **HK$M**	2013 HK$M
HAECO Hong Kong	**(50)**	537
HAECO Americas	**(2,571)**	–
TEXL	**(547)**	(750)
HAECO Xiamen	**812**	511
Other subsidiary companies	**(254)**	(491)
	(2,610)	(193)

Changes in Financing

During the year, the Group raised committed financing amounting to HK$2,559 million. This principally comprised:

- a five-year term loan facility of US$150 million
- a five-year term loan facility of US$50 million
- a five-year revolving credit facility of US$10 million
- a three-year revolving credit facility of US$25 million
- a three-year term loan facility of HK$500 million

Significant debt repayments during the year were:

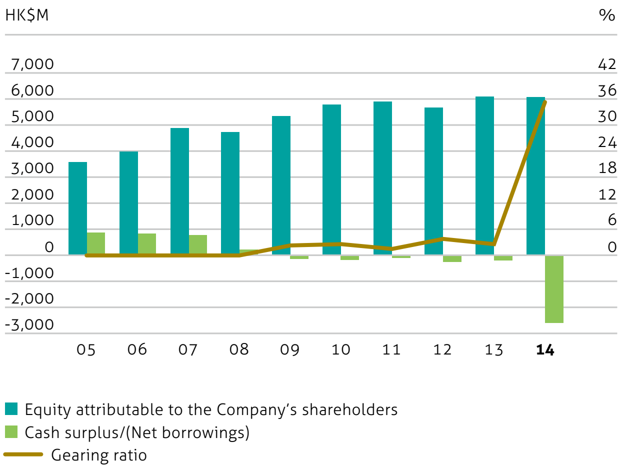
- partial repayment (US$155 million) of a term loan facility in the United States
- partial repayment (HK$951 million) of a term loan facility in Hong Kong
- repayment of various term loan facilities aggregating HK$596 million

Sources of Financing

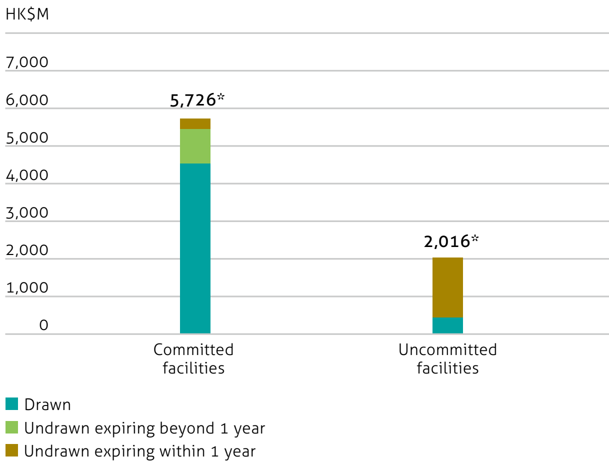
At 31st December 2014, net borrowings consisted of short-term loans of HK$453 million, long-term loans of HK$4,471 million and finance lease obligations of HK$17 million, net of bank balances and short-term deposits of HK$2,331 million. Committed loan facilities were HK$5,726 million at 31st December 2014, of which HK$1,198 million were undrawn. In addition, there were uncommitted facilities of HK$2,016 million at the same date, of which HK$1,570 million were undrawn.

	Available	Drawn	Undrawn expiring within one year	Undrawn expiring beyond one year
	HK$M	HK$M	HK$M	HK$M
Committed facilities				
– Loans and finance leases	5,726	4,528	273	925
Uncommitted facilities				
– Loans and overdraft	2,016	446	1,570	–
Total	**7,742**	**4,974**	**1,843**	**925**

Equity, Cash Surplus / Net Borrowings and Gearing



Facilities – Loan



** Total available amount (HK$M)*

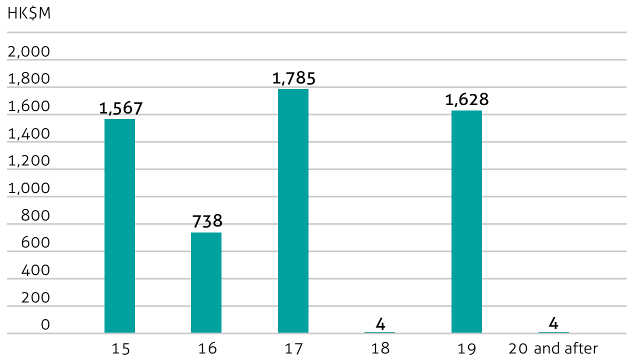
Maturity Profile and Refinancing

Loans are repayable on various dates up to 2019. Finance leases are repayable on various dates up to 2030.

The weighted average term and cost of the Group's debt is:

	2014	2013
Weighted average term of debt	**2.6 years**	2.0 years
Weighted average cost of debt	**1.88%**	2.60%

Total Available Committed Facilities by Maturity (at 31st December 2014)



Finance Charges

The exposure of the Group's loans to interest rate changes (after interest rate swaps) can be illustrated as follows:

		Fixed interest rate maturing in:			
	Floating interest rate	1 year or less	1 to 5 years	Over 5 years	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2014	**3,809**	**153**	**1,008**	**4**	**4,974**
At 31st December 2013	2,423	150	–	–	2,573

Currency Profile

An analysis of the carrying amounts of gross borrowings by currency is shown below:

	2014		2013	
	HK$M		HK$M	
Currency				
Hong Kong dollar	**1,881**	**37.8%**	1,469	57.1%
United States dollar	**3,093**	**62.2%**	1,099	42.7%
Renminbi	**–**	**0.0%**	5	0.2%
Total	**4,974**	**100.0%**	2,573	100.0%

Currency Hedging

HAECO Xiamen 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 31st December 2014, HAECO Xiamen had sold forward a total of US$44.5 million to fund part of its Renminbi requirements for 2015 and 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$8 million on forward foreign exchange contracts arose in 2014.

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.

J.R. Slosar, the Chairman, is 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 50 and 51 of this report and are posted on the Company's website.

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. C.D. Pratt was a director and employee of the 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 54.

Board Diversity

The Board has a board diversity policy, which 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 reference 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/she 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 50 and 51.

Board Processes

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

The dates of the 2014 Board meetings were determined in 2013 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 2014. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 40. Average attendance at Board meetings was 96%. 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. One such meeting was held in 2014.

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

Directors	Meetings Attended/Held: Board	Meetings Attended/Held: Audit Committee	Meetings Attended/Held: Remuneration Committee	Meetings Attended/Held: 2014 Annual General Meeting	Continuous Professional Development: Type of Training *(Note)*
Executive Directors					
J.R. Slosar – Chairman (appointed on 14th March 2014)	3/3			√	A
C.D. Pratt – Chairman (retired on 13th March 2014)	2/2			N/A	A
M. Hayman	5/5			√	A
F.N.Y. Lung	5/5			√	A
A.K.W. Tang	5/5			√	A
Non-Executive Directors					
C.P. Gibbs	5/5			√	A
P.A. Johansen	5/5	3/3	3/3	√	A
M.B. Swire	5/5			√	A
Independent Non-Executive Directors					
R.E. Adams	5/5	3/3	3/3	√	A
L.K.K. Leong	3/5	3/3	3/3	√	A
D.C.L. Tong	5/5			√	A
P.P.W. Tse	5/5			√	A
Average attendance	96%	100%	100%	100%	

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, financial position and cash flows compared to budget, together with forecasts
- internal and external audit reports
- feedback from external parties such as customers, others 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 at 31st December 2014 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 55 and 56.

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 financial statements.

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 2014.

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 2014. 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 financial statements, 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:

	2014 HK$	2015 HK$
Fee		
Director's Fee	**380,000**	380,000
Fee for Audit Committee Chairman	**140,000**	140,000
Fee for Audit Committee Member	**90,000**	90,000
Fee for Remuneration Committee Chairman	**50,000**	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 on pages 45 and 46.

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 46 and 47.

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 2014.

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 2014. 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 2014 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2013 annual and 2014 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 2015 annual Internal Audit programme and review of progress on the 2014 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 47 and 48
- the Company's compliance with the CG Code.

In 2015, the Committee has reviewed, and recommended to the Board for approval, the 2014 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 19 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. Eight assignments were conducted for HAECO in 2014.

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 2014 amounted to approximately HK$6.3 million and HK$2.7 million respectively. The non-audit services mainly consist of accounting assistance 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 9th May 2014. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 40.

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 2013
- 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 buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares then in issue, provided that the aggregate number of the shares so allotted wholly for cash would not exceed 5% of the number of the shares then in issue.

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) representing at least 5% of the total voting rights of all members may request the Board to convene a 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 2015 are set out on page 131 of this report.

No amendment has been made to the Company's Articles of Association during the year.

Directors and Officers

Executive Directors

SLOSAR, John Robert, aged 58, has been Chairman and a Director of the Company since March 2014. He was Managing Director of the Company from January 1996 to June 1998. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited and a Director of Air China Limited and The Hongkong and Shanghai Banking Corporation Limited. 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 56, 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 54, 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 48, 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 53, 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 72, 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 41, has been a Director of the Company since January 2009. He was Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, from May 2006 to June 2008. He is also Chief Executive and a Director and shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London.

Independent Non-Executive Directors

ADAMS, Robert Ernest, aged 71, 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 54, has been a Director of the Company since March 2003. He is also Chief Executive Officer and a Director of MTR Corporation Limited and a Non-Executive Director of Mandarin Oriental International Limited.

TONG, Chi Leung David, aged 44, 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 63, 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 and The Link Management Limited.

Executive Officers

CARTER, Kevin James, aged 42, is Chief Executive Officer of TIMCO Aviation Services, Inc., which became a wholly owned subsidiary of HAECO USA Holdings, Inc. in February 2014. He has held that position since July 2008. He joined TIMCO Aviation Services, Inc. in 2002 and previously served as Chief Financial Officer and Treasurer. Prior to joining TIMCO Aviation Services, Inc., he worked as a senior associate at Geneva Merchant Banking Partners, a private equity firm located in Greensboro, North Carolina, U.S.A.

CHAN, Ching Summit, aged 49, was appointed Commercial Director of the Company in February 2009 and Group Director Commercial in June 2013. He joined the Swire group in 1988 and was previously Director Business Development of Swire Pacific Offshore Holdings Limited, a wholly owned subsidiary of Swire Pacific Limited.

CHAU, Siu Cheong William, aged 61, 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 42, 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 60, has been Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, since October 2014. He 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 51, 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, 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 2014, which are set out on pages 64 to 127. Details of the following items are set out in the accounts as follows:

		Page
Results	Consolidated Statement of Profit or Loss	64
Principal activities	Note 1	70
Interest	Note 8	80
Fixed assets	Notes 13 and 14	83-88
Share capital	Note 28	111
Reserves	Note 29	112-113
Commitments	Notes 33 and 34	117
Continuing connected transactions	Note 37	119-120

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 128 and 129.

Dividends

The Directors have declared a second interim dividend of HK$1.45 per share for the year ended 31st December 2014. Together with the first interim dividend of HK$0.65 per share paid on 16th September 2014, this results in total dividends for the year of HK$2.10 per share and represents a total distribution of HK$349 million, the same as that made in respect of 2013. The second interim dividend will be paid on 28th April 2015 to shareholders registered at the close of business on the record date, being Thursday, 2nd April 2015. Shares of the Company will be traded ex-dividend as from Tuesday, 31st March 2015.

Closure of Register of Members

The register of members will be closed on Thursday, 2nd April 2015 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 Wednesday, 1st April 2015.

To facilitate the processing of proxy voting for the annual general meeting to be held on 15th May 2015, the register of members will be closed from Tuesday, 12th May 2015 to Friday, 15th May 2015, 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 Monday, 11th May 2015.

Donations

During the year the Company and its subsidiary companies made donations for charitable and community purposes totalling HK$2.9 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 financial statements (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, J.R. Slosar, M.B. Swire and A.K.W. Tang are interested in the JSSHK Services Agreement (as defined below). Before he ceased to be a Director of the Company, C.D. Pratt was so interested as a director and employee of the Swire group. M.B. Swire is so interested as a shareholder of Swire.

Particulars of the fees paid and expenses reimbursed for the year ended 31st December 2014 are set out in note 37 to the financial statements.

Major Customers and Suppliers (Significant Contracts)

66.7% of sales and 48.2% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 27.0% of sales were made to the Group's largest customers, GE Aviation Group. 40.4% of purchases were from the largest suppliers, GE Aviation Group. The Cathay Pacific group, being Cathay Pacific and its subsidiaries (including Dragonair and AHK Air Hong Kong Limited), was among the Group's five largest customers.

In respect of the Company's transactions with the Cathay Pacific group and GE Aviation Group:

1. Swire Pacific Limited is interested as a controlling shareholder by holding a 45% equity interest in Cathay Pacific;
2. C.P. Gibbs is interested as employee of Cathay Pacific;
3. J.R. Slosar and M.B. Swire are interested as directors of Cathay Pacific and, before he ceased to be a Director of the Company, C.D. Pratt was so interested; and
4. L.K.K. Leong is interested as a public minority shareholder of General Electric Company.

Save as disclosed above, no Director, any of their close 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 HAECO ITM 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 HAECO ITM 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 HAECO ITM, HAECO ITM 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 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) on normal commercial terms or better; and

(c) according to the agreements 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 nothing has come to their attention that causes them to believe that they have not been approved by the Board of the Company; that they were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; that they were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and that they have exceeded the relevant annual caps.

Directors

The Directors of the Company at the date of this report are listed on pages 50 and 51. J.R. Slosar was appointed as Chairman and a Director on 14th March 2014. All the other Directors at the date of this report served throughout the calendar year 2014. C.D. Pratt retired as Chairman and a Director of the Company on 13th March 2014.

The Hon. Sir Michael Kadoorie served as Alternate Director to D.C.L. Tong during the year.

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, M.B. Swire and A.K.W. Tang retire this year and, being eligible, offer themselves for re-election. L.K.K. Leong will also retire this year but does not offer himself for re-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$1.84 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 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					
	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	3,144,273	–	19,222,920	22,367,193	22.37	*3*
8% Cum. Preference Shares of £1						
M.B. Swire	846,476	–	5,655,441	6,501,917	21.67	*3*

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued capital (%)	*Note*
Swire Pacific Limited						
'A' shares						
P.A. Johansen	31,500	–	–	31,500	0.0035	
'B' shares						
P.A. Johansen	200,000	–	–	200,000	0.0067	
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	7,890,000	7,890,000	0.2634	*2*

	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

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. *The Hon. Sir Michael David Kadoorie is one of the beneficiaries of a discretionary trust which ultimately holds these shares.*
3. *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 close 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 2014, the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	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 31st December 2014:

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 48.83% of the issued share capital and approximately 60.91% of the voting rights.*
3. *Aberdeen Asset Management plc was interested in the shares in its capacity as investment manager. These included shares in which wholly-owned controlled corporations of Aberdeen Asset Management plc were interested.*

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

John Slosar
Chairman
Hong Kong, 17th March 2015

Sustainable Development

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 cooperates with others with a view to promoting sustainable development in the aviation industry.

The Group issues an annual sustainable development report, which is available on its website.

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 reduce carbon emissions), by investing in energy efficient equipment and systems, by reducing waste and by cooperating with others.

In 2014, HAECO Hong Kong saved around 371,000 kilowatt hours ("kWh") of electricity consumption. It reduced greenhouse gas emissions by replacing conventional lights with LED lights and by using standby lighting on staircases.

In 2014, the solar panels at HAECO Xiamen's premises generated approximately 1.36 million kWh of electricity. 14 water pumps and motors at HAECO Xiamen's effluent treatment plants which used a lot of electricity were replaced by pumps and motors which use less electricity. HAECO Xiamen upgraded its waste water treatment plant and air pollution control equipment.

New wastewater treatment facilities for electroplating at HAECO Xiamen

In 2014:

- The Group emitted around 115,000 tonnes of carbon dioxide equivalent, a 31.4% increase from 2013 principally reflecting the inclusion of HAECO Americas emission; and
- HAECO Hong Kong collected 55,358 kilograms of waste food as part of the Airport Authority of Hong Kong's food waste recycling scheme, with the food waste being recycled in a fish feed production plant.

The Group received the following environmental awards in 2014:

- HAECO Hong Kong received a silver medal from CLP Power Hong Kong for its excellent contribution to the environment.
- HAECO Hong Kong received a leadership award in Evident-base New Technologies Application for Building Energy Conservation from The Hong Kong Institution of Engineers.
- HAECO Hong Kong received Wastewi$e Label (Class of Excellence) award at the Hong Kong Awards for Environmental Excellence.
- HAECO Hong Kong was designated "3 Years + Entrant" and as a Green Medallist at the 2014 Hang Seng Pearl River Delta Environmental Awards.
- HAECO Hong Kong received a Carbon "Less" Certificate at the Hong Kong Awards for Environmental Excellence.

Aircraft Painting Extraction System Inlet and Exhaust at HAECO Xiamen

1.36
Million kWh
Renewable Energy Generated

Health and Safety

The Group 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.

HAECO Hong Kong developed a 3S safety management system in order to monitor and enhance safety. The safety improvement team is responsible for compliance. The safety correction board is responsible for disciplinary measures. The safety action group is in charge of identifying safety risk mitigation and driving improvement.

HAESL has developed a job safety analysis in order to identify hazards.

Also in 2014:

- HAECO Hong Kong started to install GPS devices in its vehicles. These devices enable the safety of the vehicles' operations to be monitored.
- HAECO Americas established key performance indicators for staff responsible for health and safety.

Lost Time Injury Rate

▼6.7%

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 6.7% between 2013 and 2014.

Employees

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

The Group engages in job fairs, forums, recruitment events and exhibitions, with a view to enabling potential recruits to understand the Group and the employment opportunities within its businesses.

The induction period for HAECO Hong Kong new aircraft maintenance trainees has been extended from six weeks to six months. E-learning is used. HAECO Hong Kong provides examination leave for candidates taking the HKCAD Aircraft Maintenance License Examinations and reimburses their examination fees on passing the examinations.

HAECO Xiamen trains its engineers and officers in project management.

The Group, including its subsidiary and joint venture companies, employed over 17,000 staff at the end of 2014, of which 6,783 were in Hong Kong, including 5,734 at HAECO Hong Kong. The staff numbers at the end of 2014 and 2013 are further analysed below.

Hangar visit organised to inspire youngsters pursuing career in the aviation maintenance industry

	2014	2013	Change
HAECO Hong Kong	**5,734**	5,492	+4.4%
HAECO Americas	**2,894**	–	N/A
HAECO Xiamen	**4,902**	5,091	-3.7%
HAESL	**915**	1,073	-14.7%
Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own more than 20%	**2,612**	2,460	+6.2%
	17,057	14,116	+20.8%

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 these communities and to showing respect for their cultures and heritage.

HAECO Hong Kong supports the GreenPower Hike and the Hong Kong 24 Hour Charity Pedal Kart Grand Prix. It organises hangar visits for young people.

HAECO Americas:

- Supports the Greensboro Sports Council's annual high school basketball tournament.
- Supports the March of Dimes, an organisation dedicated to preventing birth defects and infant mortality.

HAECO Invitational, Greensboro Sports Council's annual high school basketball tournament, held in the United States

Over
798,000
Training Hours

HAECO Hong Kong participating in Hong Kong 24 Hour Charity Pedal Kart Grand Prix and raising funds of around HK$120,000

- Encourages employees to buy toys for less fortunate children.
- Gives secondary school pupils the opportunity to shadow jobs.
- Supports the rehabilitation of military veterans and the repair of their homes.
- Hires recently released military veterans.

HAECO Xiamen has planted over 30,000 mangroves (with over 1,400 volunteers participating) and supports the annual lights off event called Earth Hour.

Volunteers from HAESL helped to paint the walls of a hostel for the Hong Kong Youth Hostels Association.

In 2014, the Group made donations of HK$2.9 million for charitable and community purposes.

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.

Volunteers from HAESL helped to paint the walls of a hostel for the Hong Kong Youth Hostels Association

HK$
2.9 Million
Donations

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 64 to 127, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 80 of Schedule 11 to 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 2014, 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, 17 March 2015

Consolidated Statement of Profit or Loss

for the year ended 31st December 2014

	Note	2014	2013
		HK$M	HK$M
Revenue	4	**11,927**	7,387
Operating expenses:			
Staff remuneration and benefits	5	**(4,573)**	(3,053)
Cost of direct material and job expenses		**(5,322)**	(3,039)
Depreciation, amortisation and impairment	13, 14	**(639)**	(488)
Insurance and utilities		**(191)**	(87)
Operating lease rentals – land and buildings		**(275)**	(180)
Repairs and maintenance		**(188)**	(149)
Other		**(236)**	(212)
		(11,424)	(7,208)
Other net gains	7	**6**	87
Operating profit		**509**	266
Finance income	8	**30**	21
Finance charges	8	**(100)**	(59)
Net operating profit		**439**	228
Share of after-tax results of joint venture companies	16	**314**	501
Profit before taxation		**753**	729
Taxation	9	**(94)**	(33)
Profit for the year		**659**	696
Profit attributable to:			
The Company's shareholders	10	**573**	625
Non-controlling interests		**86**	71
		659	696
Dividends			
First interim – paid		**108**	133
Second interim – declared/paid		**241**	216
	11	**349**	349
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	12	**HK$3.45**	HK$3.76

The notes on pages 70 to 127 (which include the principal accounting policies) form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the year ended 31st December 2014

	2014 HK$M	2013 HK$M
Profit for the year	**659**	696
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes		
– remeasurement (losses)/gains recognised	**(253)**	246
– deferred tax	**42**	(40)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
– losses recognised	**(18)**	–
– transferred to revenue	**8**	–
– transferred to finance charges	**2**	–
– deferred tax	**2**	–
Share of other comprehensive income of joint venture companies	**(27)**	18
Net translation differences on foreign operations	**(71)**	83
Other comprehensive income for the year, net of tax	**(315)**	307
Total comprehensive income for the year	**344**	1,003
Total comprehensive income attributable to:		
The Company's shareholders	**288**	902
Non-controlling interests	**56**	101
	344	1,003

The notes on pages 70 to 127 (which include the principal accounting policies) form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2014

	Note	2014	2013
		HK$M	HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**5,319**	4,909
Leasehold land and land use rights	13	**360**	359
Intangible assets	14	**2,608**	503
Joint venture companies	16	**1,240**	1,213
Derivative financial instruments	20	**–**	11
Deferred tax assets	19	**96**	83
Retirement benefit assets	18	**53**	333
Long-term prepayment		**17**	13
		9,693	7,424
Current assets			
Stocks	22	**654**	327
Work in progress	23	**588**	130
Trade and other receivables	24	**1,767**	2,045
Taxation recoverable		**1**	–
Derivative financial instruments	20	**10**	16
Cash and cash equivalents	32(b)	**2,310**	2,341
Short-term deposits	32(b)	**21**	23
		5,351	4,882
Current liabilities			
Trade and other payables	25	**2,044**	1,875
Taxation payable		**38**	35
Derivative financial instruments	20	**9**	–
Short-term loans	26	**453**	533
Long-term loans due within one year	26	**1,167**	369
Finance lease obligations due within one year	26	**3**	–
		3,714	2,812
Net current assets		**1,637**	2,070
Total assets less current liabilities		**11,330**	9,494
Non-current liabilities			
Long-term loans	26	**3,304**	1,655
Finance lease obligations	26	**14**	–
Receipt in advance	31	**27**	37
Deferred income		**23**	11
Advance from a related party	27	**218**	90
Put option over a non-controlling interest in a subsidiary company	3(a)	**72**	72
Deferred tax liabilities	19	**273**	303
Derivative financial instruments	20	**2**	–
Other payables		**10**	–
		3,943	2,168
NET ASSETS		**7,387**	7,326
EQUITY			
Share capital	28	**185**	166
Reserves	29	**5,884**	5,931
Equity attributable to the Company's shareholders		**6,069**	6,097
Non-controlling interests	30	**1,318**	1,229
TOTAL EQUITY		**7,387**	7,326

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

John Slosar

Lincoln Leong

Directors

Hong Kong, 17th March 2015

The notes on pages 70 to 127 (which include the principal accounting policies) form part of these financial statements.

Company Statement of Financial Position

at 31st December 2014

	Note	2014	2013
		HK$M	HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**1,936**	2,022
Leasehold land	13	**14**	14
Intangible assets	14	**2**	3
Subsidiary companies	15	**1,272**	1,260
Joint venture companies		**113**	113
Loans due from subsidiary companies	15	**1,687**	210
Retirement benefit assets	18	**53**	333
		5,077	3,955
Current assets			
Stocks of aircraft parts	22	**221**	184
Work in progress	23	**50**	67
Trade and other receivables	24	**520**	557
Cash and cash equivalents		**744**	1,475
		1,535	2,283
Current liabilities			
Trade and other payables	25	**581**	683
Taxation payable		**1**	17
Long-term loans due within one year	26	**817**	150
		1,399	850
Net current assets		**136**	1,433
Total assets less current liabilities		**5,213**	5,388
Non-current liabilities			
Long-term loans	26	**795**	788
Receipt in advance	31	**27**	37
Deferred tax liabilities	19	**194**	232
Derivative financial instruments	20	**1**	–
		1,017	1,057
NET ASSETS		**4,196**	4,331
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	28	**185**	166
Reserves	29	**4,011**	4,165
TOTAL EQUITY		**4,196**	4,331

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

John Slosar
Lincoln Leong
Directors

Hong Kong, 17th March 2015

The notes on pages 70 to 127 (which include the principal accounting policies) form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2014

	Note	2014 HK$M	2013 HK$M
Operating activities			
Cash generated from operations	*32(a)*	**1,274**	644
Interest paid		**(81)**	(49)
Interest received		**34**	17
Tax paid		**(112)**	(107)
Net cash generated from operating activities		**1,115**	505
Investing activities			
Purchase of property, plant and equipment		**(664)**	(558)
Purchase of intangible assets		**(7)**	(2)
Proceeds from disposals of property, plant and equipment		**35**	2
Repayment of loans by joint venture companies		**–**	91
Dividends received from joint venture companies		**251**	471
Net cash (outflow)/inflow on purchase of shares in a subsidiary company		**(2,942)**	11
Decrease in deposits maturing after more than three months		**1**	2
Net cash (used in)/generated from investing activities		**(3,326)**	17
Net cash (outflow)/inflow before financing activities		**(2,211)**	522
Financing activities			
Proceeds from loans		**5,738**	1,131
Repayment of loans and finance leases		**(3,378)**	(257)
Capital contribution from non-controlling interests		**–**	5
Net cash inflow on disposal of shares in a subsidiary company		**79**	–
Advance from a related party		**128**	–
Dividends paid to the Company's shareholders		**(324)**	(466)
Dividends paid to non-controlling interests		**(38)**	(31)
Net cash generated from financing activities		**2,205**	382
(Decrease)/increase in cash and cash equivalents		**(6)**	904
Cash and cash equivalents at 1st January		**2,341**	1,418
Currency adjustment		**(25)**	19
Cash and cash equivalents at 31st December	*32(b)*	**2,310**	2,341

The notes on pages 70 to 127 (which include the principal accounting policies) form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2014

	Note	Attributable to the Company's shareholders					
		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 2014		**166**	**5,703**	**228**	**6,097**	**1,229**	**7,326**
Profit for the year		**–**	**573**	**–**	**573**	**86**	**659**
Other comprehensive income		**–**	**(235)**	**(50)**	**(285)**	**(30)**	**(315)**
Total comprehensive income for the year		**–**	**338**	**(50)**	**288**	**56**	**344**
Transition to no-par value regime on 3rd March 2014	*28*	**19**	**–**	**(19)**	**–**	**–**	**–**
Dividends paid		**–**	**(324)**	**–**	**(324)**	**(38)**	**(362)**
Change in composition of the Group	*30, 35*	**–**	**8**	**–**	**8**	**71**	**79**
At 31st December 2014		**185**	**5,725**	**159**	**6,069**	**1,318**	**7,387**

	Note	Attributable to the Company's shareholders					
		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		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

The notes on pages 70 to 127 (which include the principal accounting policies) form part of these financial statements.

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, Mainland China and the United States.

The principal activities of the Group's major subsidiary and joint venture companies are set out in note 39. 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 2014, the Group had hedged its significant foreign currency funding exposures, by fixing the foreign exchange rates with forward contracts.

At 31st December 2014, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, profit before tax for the year would have been HK$3 million (2013: 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 2013 and 2014, 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.

At 31st December 2014, if the market interest rates increased by 100 basis-points with all other variables held constant, profit before tax for the year would have been HK$23 million lower arising mainly from the interest charges on borrowings; equity would have been HK$14 million higher arising from the fair value gains of interest rate swaps recognised in other comprehensive income.

The Group's results in 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.

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(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.

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	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Guarantees provided in respect of loans of:				
Subsidiary companies	**–**	–	**2,516**	659
Joint venture companies	**–**	66	**–**	–
	–	66	**2,516**	659

(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 2014					
Group					
Bank loans (including interest obligations)	**5,132**	**1,692**	**889**	**2,551**	**–**
Trade and other payables	**1,002**	**1,002**	**–**	**–**	**–**
Finance lease obligations	**23**	**4**	**4**	**9**	**6**
Derivative financial instruments	**11**	**9**	**2**	**–**	**–**
Advance from a related party	**228**	**2**	**92**	**134**	**–**
Put option over a non-controlling interest in a subsidiary company	**78**	**–**	**78**	**–**	**–**
	6,474	**2,709**	**1,065**	**2,694**	**6**

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 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	–

	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 2014					
Company					
Bank loans (including interest obligations)	**1,675**	**848**	**16**	**811**	**–**
Trade and other payables	**234**	**234**	**–**	**–**	**–**
Derivative financial instruments	**1**	**–**	**1**	**–**	**–**
Financial guarantee contracts	**2,516**	**2,516**	**–**	**–**	**–**
	4,426	**3,598**	**17**	**811**	**–**

	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	–

(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.

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 130. The gearing ratio at 31st December 2014 was 35.3% (2013: 2.6%). The increase in the gearing ratio during 2014 principally reflects bank loans to finance the acquisition of TIMCO Aviation Services, Inc.

2. Financial risk management (continued)

(b) Capital management (continued)

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 2014			
Derivatives not qualifying as hedges	**10**	**–**	**10**
Total	**10**	**–**	**10**
At 31st December 2013			
Derivatives not qualifying as hedges	27	–	27
Total	27	–	27
Liabilities			
At 31st December 2014			
Derivatives used for hedging	**9**	**–**	**9**
Derivatives not qualifying as hedges	**2**	**–**	**2**
Put option over a non-controlling interest in a subsidiary company	**–**	**72**	**72**
Total	**11**	**72**	**83**
At 31st December 2013			
Put option over a non-controlling interest in a subsidiary company	–	72	72
Total	–	72	72

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 2013	72
At 31st December 2013	72
At 31st December 2014	**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) in 2014 is as follows:

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%	56/(38)
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	(55)/81

Information about fair value measurements using significant unobservable inputs (Level 3) in 2013 is as follows:

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)

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.

Revenue 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. Sales of goods are recognised when the goods are delivered to the customer and the customer has accepted the related risk and rewards of ownership.

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 Americas, which principally comprises the results and segment assets arising from the Group's acquisition of TIMCO Aviation Services, Inc. The reportable segments are now presented under new names following the Group's introduction of a new corporate identity in 2014.

4. Segment information (continued)

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

	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	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**	**HK$M**
Year ended 31st December 2014									
External revenue	**3,178**	**2,885**	**1,924**	**3,538**	**8,363**	**(8,363)**	**402**	**–**	**11,927**
Inter-segment revenue	**66**	**–**	**14**	**–**	**10**	**(10)**	**53**	**(133)**	**–**
Total revenue	**3,244**	**2,885**	**1,938**	**3,538**	**8,373**	**(8,373)**	**455**	**(133)**	**11,927**
Operating profit/(loss)	**135**	**(8)**	**215**	**217**	**525**	**(525)**	**(50)**	**–**	**509**
Finance income	**10**	**–**	**18**	**3**	**–**	**–**	**1**	**(2)**	**30**
Finance charges	**(26)**	**(38)**	**(5)**	**(15)**	**(8)**	**8**	**(18)**	**2**	**(100)**
Share of after-tax results of joint venture companies	**–**	**–**	**–**	**–**	**162**	**105**	**–**	**47**	**314**
Profit/(loss) before taxation	**119**	**(46)**	**228**	**205**	**679**	**(412)**	**(67)**	**47**	**753**
Taxation (charge)/credit	**(16)**	**1**	**(69)**	**4**	**(86)**	**86**	**(9)**	**(5)**	**(94)**
Profit/(loss) for the year	**103**	**(45)**	**159**	**209**	**593**	**(326)**	**(76)**	**42**	**659**
Depreciation	**163**	**72**	**150**	**37**	**99**	**(99)**	**81**	**–**	**503**
Amortisation	**1**	**69**	**12**	**30**	**4**	**(4)**	**–**	**–**	**112**
Provision for impairment of stock and property, plant and equipment	**9**	**11**	**9**	**–**	**–**	**–**	**24**	**–**	**53**
Auditors' remuneration – statutory audit fees	**2**	**2**	**1**	**–**	**–**	**–**	**1**	**–**	**6**

	HAECO Hong Kong	HAECO Xiamen	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Year ended 31st December 2013								
External revenue	3,169	1,860	2,095	10,953	(10,953)	263	–	7,387
Inter-segment revenue	48	10	1	2	(2)	64	(123)	–
Total revenue	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	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)
Auditors' remuneration – statutory audit fees	2	1	–	–	–	–	–	3

4. Segment information (continued)

	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	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**	**HK$M**
At 31st December 2014									
Total segment assets	**4,050**	**3,357**	**3,147**	**2,135**	**2,377**	**(2,377)**	**1,821**	**(706)**	**13,804**
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	**78**	**21**	**75**	**35**	**182**	**(182)**	**472**	**(3)**	**678**
Total segment liabilities	**1,597**	**3,065**	**691**	**1,262**	**652**	**(652)**	**1,747**	**(705)**	**7,657**

	HAECO Hong Kong	HAECO Xiamen	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

The goodwill which was arisen from the acquisitions of TEXL and TIMCO Aviation Services, Inc. has been accounted for under TEXL and HAECO Americas respectively.

	2014	2013
	HK$M	HK$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	**13,804**	11,093
Unallocated: investment in joint venture companies	**1,240**	1,213
Total assets	**15,044**	12,306

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

Transactions between segments are carried out on an arm's length basis. The revenue 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 revenue, 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.

	2014	2013
	HK$M	HK$M
The Group's revenue derived from external customers:		
In Hong Kong	**2,642**	2,740
In the United States	**6,799**	3,164
In other countries	**2,486**	1,483
	11,927	7,387
Total non-current assets other than joint venture companies, financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	**2,805**	2,635
In the United States	**2,476**	–
In other countries (mainly in Mainland China)	**3,023**	3,149
	8,304	5,784
Single external customers amounting to 10% or more of the Group's revenue:		
Revenue in HAECO Hong Kong, HAECO Americas, HAECO Xiamen, TEXL and other segments derived from customer A	**2,583**	2,691
Revenue in HAECO Hong Kong, HAECO Xiamen and TEXL derived from customer B	**3,218**	2,101
Revenue in HAECO Hong Kong, HAECO Americas, HAECO Xiamen and other segments derived from customer C	**1,455**	–
	7,256	4,792

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 2014 amounted to HK$4,573 million (2013: HK$3,053 million). Of the five highest paid employees, two (2013: two) were Directors and two (2013: two) were Executive Officers whose emoluments are given in note 6. The emolument of the remaining one (2013: one) individual during the year is as follows:

	2014	2013
	HK$000	HK$000
Basic salary	**1,705**	1,624
Bonus	**534**	571
Allowances, gratuities and benefits	**2,503**	2,576
Retirement scheme contributions	**17**	15
	4,759	4,786

6. Directors' and Executive Officers' emoluments

The total number of Directors who served during the year was 12 (2013: 11) and the total number of Executive Officers who served during the year was six (2013: five). 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	**2014 Total**	2013 Total
	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	**HK$000**	HK$000
Executive Directors:								
John Slosar (from 14th March 2014)	440	–	17	141	–	243	**841**	–
Christopher Pratt (until 13th March 2014)	125	626	1	39	–	72	**863**	1,894
Augustus Tang	3,219	3,932	1,444	372	–	1	**8,968**	9,094
Mark Hayman	2,232	1,359	918	–	–	18	**4,527**	4,503
Fanny Lung	2,448	1,177	88	283	–	1	**3,997**	3,725
	8,464	7,094	2,468	835	–	335	**19,196**	19,216
Non-Executive Directors:								
Christopher Gibbs	–	–	–	–	–	–	**–**	–
Peter Johansen	505	–	–	–	–	–	**505**	470
Merlin Swire	–	–	–	–	–	–	**–**	–
	505	–	–	–	–	–	**505**	470
Independent Non-Executive Directors:								
Robert Adams	520	–	–	–	–	–	**520**	481
Lincoln Leong	555	–	–	–	–	–	**555**	500
Peter Tse	380	–	–	–	–	–	**380**	345
David Tong	380	–	–	–	–	–	**380**	345
	1,835	–	–	–	–	–	**1,835**	1,671
2014 total	**10,804**	**7,094**	**2,468**	**835**	**–**	**335**	**21,536**	
2013 total	9,815	7,149	2,789	996	165	443		21,357
Executive Officers:								
Kevin Carter (from 6th February 2014)	4,182	–	86	20	–	–	**4,288**	–
Stephen Chadwick (until 30th September 2014)	1,354	689	770	232	–	1,345	**4,390**	4,583
Summit Chan	2,268	941	181	262	–	2	**3,654**	3,459
William Chau (from 1st September 2013)	2,006	462	654	232	–	1	**3,355**	987
Patrick Healy (until 1st August 2012)	–	–	–	–	–	–	**–**	1,154
Ronald Lam (from 1st July 2013)	1,687	438	438	195	–	1	**2,759**	1,064
Kenny Tang	2,297	1,252	654	265	–	476	**4,944**	4,398
2014 total	**13,794**	**3,782**	**2,783**	**1,206**	**–**	**1,825**	**23,390**	
2013 total	7,083	3,104	2,649	993	440	1,376		15,645

Notes:

a. *Annual Directors' fees are determined by the Board and for 2014 comprised Director's fee of HK$380,000 (2013: HK$345,000), fee for members serving on Audit Committee of HK$90,000 (2013: HK$90,000) and fee for members serving on Remuneration Committee of HK$35,000 (2013: HK$35,000) respectively. The fee for the Chairman of Audit Committee is HK$140,000 (2013: HK$120,000) and the fee for the Chairman of Remuneration Committee is HK$50,000 (2013: HK$46,000).*

   The amount relating to Kevin Carter includes a provision of HK$936,000 attributable to 2014 which is payable in later years upon satisfaction of vesting conditions.

b. *Bonuses are not yet approved for 2014. The amounts disclosed above are related to services as Executive Directors and Officers for 2013 but paid and charged to the Group in 2014.*

7. Other net gains

	Group 2014 HK$M	Group 2013 HK$M
Net foreign exchange (losses)/gains	**(10)**	50
Loss on disposal of property, plant and equipment	**(26)**	(5)
Amortisation of deferred income	**1**	1
Receipt of government subsidies	**41**	41
	6	87

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 2014 HK$M	Group 2013 HK$M
Finance income:		
Short-term deposits and bank balances	**30**	18
Loans due from joint venture companies	**–**	3
Finance charges:		
Bank loans	**(96)**	(59)
Advance from a related party	**(1)**	–
Finance lease obligations	**(1)**	–
Fair value losses on derivative instruments:		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	**(2)**	–
	(70)	(38)

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	
	2014	2013
	HK$M	HK$M
Current taxation:		
Hong Kong profits tax	**13**	32
Overseas taxation	**97**	50
Under-provisions in prior years	**2**	1
	112	83
Deferred taxation (note 19):		
Increase in deferred tax assets	**(18)**	(134)
Increase in deferred tax liabilities	**–**	84
	94	33

Hong Kong profits tax is calculated at 16.5% (2013: 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$47 million (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.

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	
	2014	2013
	HK$M	HK$M
Profit before taxation	**753**	729
Calculated at a tax rate of 16.5% (2013: 16.5%)	**124**	120
Share of after-tax results of joint venture companies	**(52)**	(83)
Effect of different tax rates in other countries	**19**	5
Income not subject to tax	**(9)**	(9)
Expenses not deductible for tax purposes	**19**	13
Unused tax losses not recognised	**5**	2
Utilisation of previously unrecognised tax losses	**(52)**	(17)
Recognition of previously unrecognised tax losses	**–**	(8)
Under-provisions in prior years	**2**	1
Effect of change in tax rates	**–**	(28)
Deferred tax assets written off	**15**	8
Temporary differences not recognised	**12**	10
Recognition of previously unrecognised temporary differences	**(9)**	6
Withholding tax	**19**	13
Others	**1**	–
Tax charge	**94**	33

10. Profit attributable to the Company's shareholders

Of the profit attributable to the Company's shareholders, HK$401 million (2013: HK$496 million) 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	
	2014	2013
	HK$M	HK$M
First interim dividend paid on 16th September 2014 of HK$0.65 per share (2013: HK$0.80 per share)	**108**	133
Second interim dividend declared on 17th March 2015 of HK$1.45 per share (2013: HK$1.30 per share)	**241**	216
	349	349

The second interim dividend is not accounted for in 2014 because it had not been declared and approved at the reporting date. The actual amount payable in respect of 2014 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2015.

12. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$573 million (2013: HK$625 million) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2013: 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" 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 plant, machinery and tools have been written down by HK$24 million (2013: HK$38 million) to their recoverable amount due to the fire incident in HAECO Landing Gear Services in 2012.

The municipal government of Xiamen's proposal to develop a new airport at Xiang'an is being evaluated by the National Development and Reform Commission in Beijing. Management has reviewed the recoverable amounts of the Group's property, plant and equipment and land use rights at the existing airport which might be affected by the proposal to develop a new airport and has concluded that there was no impairment loss on these assets at 31st December 2014. Management will maintain regular communication with the local authorities about the timing of the development of the new airport and its impact on the operations of HAECO Xiamen and other HAECO Group companies at the existing airport.

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 2013	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
Translation differences	(50)	(26)	(2)	–	(2)	(80)	(8)
Acquisition of a subsidiary company	231	117	25	–	2	375	18
Additions and transfers	46	237	43	331	13	670	–
Disposals	(17)	(218)	(20)	(71)	–	(326)	–
At 31st December 2014	**5,844**	**2,331**	**229**	**1,067**	**141**	**9,612**	**487**
Accumulated depreciation, amortisation and impairment							
At 1st January 2013	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
Translation differences	(22)	(18)	(2)	(1)	–	(43)	(2)
Depreciation and amortisation charge for the year	240	166	39	58	–	503	11
Impairment charge for the year	–	24	–	–	–	24	–
Disposals	(13)	(214)	(21)	(7)	–	(255)	–
At 31st December 2014	**2,463**	**1,418**	**150**	**262**	**–**	**4,293**	**127**
Net book value							
At 31st December 2014	**3,381**	**913**	**79**	**805**	**141**	**5,319**	**360**
At 31st December 2013	3,376	761	49	595	128	4,909	359

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 2013	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
Additions and transfers	7	36	20	–	15	78	–
Disposals	(1)	(11)	(4)	(1)	–	(17)	–
At 31st December 2014	**3,091**	**780**	**116**	**81**	**32**	**4,100**	**21**
Accumulated depreciation, amortisation and impairment							
At 1st January 2013	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
Depreciation and amortisation charge for the year	116	35	12	–	–	163	–
Disposals	–	(11)	(4)	(1)	–	(16)	–
At 31st December 2014	**1,370**	**629**	**84**	**81**	**–**	**2,164**	**7**
Net book value							
At 31st December 2014	**1,721**	**151**	**32**	**–**	**32**	**1,936**	**14**
At 31st December 2013	1,831	150	24	–	17	2,022	14

At 31st December 2014 and 2013, 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$360 million (2013: HK$359 million), HK$14 million (2013: HK$14 million) relates to the net book value of leasehold land held in Hong Kong by the Company and HK$346 million (2013: HK$345 million) relates to the net book value of land use rights held in Mainland China by HAECO Xiamen, HAECO Landing Gear Services and TEXL, and the leasehold land held in the United States. 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) Customer relationships
Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation. They are amortised over their estimated useful life of fifteen years.

(f) 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	Customer relationships	Others	Total	Others
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Cost						
At 1st January 2013	31	535	–	52	618	10
Translation differences	–	–	–	1	1	–
Additions and transfers	–	–	–	6	6	4
At 31st December 2013	31	535	–	59	625	14
Translation differences	(2)	–	(1)	(1)	(4)	–
Acquisition of a subsidiary company	1,390	–	740	72	2,202	–
Additions and transfers	–	–	–	8	8	–
At 31st December 2014	**1,419**	**535**	**739**	**138**	**2,831**	**14**
Accumulated amortisation						
At 1st January 2013	–	71	–	19	90	10
Amortisation charge for the year	–	27	–	5	32	1
At 31st December 2013	–	98	–	24	122	11
Amortisation charge for the year	–	26	45	30	101	1
At 31st December 2014	**–**	**124**	**45**	**54**	**223**	**12**
Net book value						
At 31st December 2014	**1,419**	**411**	**694**	**84**	**2,608**	**2**
At 31st December 2013	31	437	–	35	503	3

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.

Management considers the business primarily from an entity perspective and goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill allocated to each operating segment.

	2014	2013
	HK$M	HK$M
HAECO Americas	**1,388**	–
TEXL	**31**	31
	1,419	31

14. Intangible assets (continued)

Impairment test of goodwill (continued)

The recoverable amount of HAECO Americas has been determined on a value in use basis. The key assumptions for the recoverable value of this cash generating unit ("CGU") are the revenue growth rate and discount rate used. The pre-tax discount rate of 8.5% 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 five year period. A five year forecast is considered appropriate as this takes into account the expectation of growth in the business following HAECO's acquisition. Revenue growth is the cumulative average growth rate of 6.8% per annum over the five-year forecast period. It is based on past performance, current industry trends and management's expectations of market development. An assumption of no growth in cash flows after year five is made.

The recoverable amount of TEXL 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 pre-tax discount rate of 9.5% (2013: 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 five year period. A five year forecast is considered appropriate as this takes into account the expectation of growth in the business. An assumption of no growth in cash flows after year five is made.

In HAECO Americas, the recoverable amount calculated based on value in use exceeded carrying value by HK$2,646 million. A cumulative average revenue growth rate of 2.1% per annum or a rise of discount rate to 15.6%, both changes taken in isolation, would remove the remaining headroom.

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. Loans to subsidiary companies with no fixed term of repayments or the Group has demonstrated its intention to renew at maturity are accounted for as a capital contribution.

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.

15. Subsidiary companies (continued)

	Company	
	2014	2013
	HK$M	HK$M
Unlisted shares at cost	**1,272**	1,260

The principal subsidiary companies of Hong Kong Aircraft Engineering Company Limited are shown on page 122.

Out of the loans due from subsidiary companies, HK$210 million (2013: HK$210 million) is unsecured and interest free (2013: same). It is non-current and has no fixed terms of repayment. HK$1,177 million (2013: nil) is unsecured and interest free. It is repayable in 2024 and management has demonstrated its intention to renew at maturity. HK$300 million (2013: nil) is unsecured and on a floating rate basis (2014: 1.26% per annum). It is repayable in 2019 and the fair value of the loan approximates its carrying value.

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.

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.

16. Joint venture companies (continued)

	Group					
	HAESL		Others		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**901**	844	**312**	312	**1,213**	1,156
Translation differences	**(1)**	–	**(8)**	10	**(9)**	10
Disposal of a joint venture company	**–**	–	**–**	(17)	**–**	(17)
Share of profit	**267**	465	**47**	36	**314**	501
Share of other comprehensive income	**(27)**	18	**–**	–	**(27)**	18
Dividends received from joint venture companies	**(239)**	(426)	**(12)**	(29)	**(251)**	(455)
At 31st December	**901**	901	**339**	312	**1,240**	1,213

The principal joint venture companies are shown on page 122.

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

	2014	2013
	HK$M	HK$M
Revenue	**8,373**	10,955
Depreciation and amortisation	**(103)**	(95)
Other operating expenses	**(7,745)**	(9,882)
Operating profit	**525**	978
Finance charges	**(8)**	(5)
Share of after-tax results of a joint venture company	**162**	222
Profit before taxation	**679**	1,195
Taxation	**(86)**	(161)
Profit for the year	**593**	1,034
Other comprehensive income	**(61)**	40
Total comprehensive income	**532**	1,074
Dividends received from the joint venture company	**239**	426

16. Joint venture companies (continued)

Summarised statement of financial position

	At 31st December	
	2014	2013
	HK$M	HK$M
Non-current assets	**1,329**	1,295
Current assets		
Cash and cash equivalents	**91**	61
Other current assets	**1,235**	2,786
Total current assets	**1,326**	2,847
Current liabilities		
Other current liabilities (including trade payables)	**202**	1,700
Total current liabilities	**202**	1,700
Non-current liabilities		
Financial liabilities	**349**	349
Other non-current liabilities	**101**	91
Total non-current liabilities	**450**	440
Net assets	**2,003**	2,002

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.

	2014	2013
	HK$M	HK$M
Net assets		
At 1st January	**2,002**	1,875
Profit for the year	**593**	1,034
Other comprehensive income	**(61)**	40
Dividends paid	**(531)**	(947)
At 31st December	**2,003**	2,002
Carrying value of 45% interest in the joint venture company	**901**	901

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.

17. Financial instruments by category (continued)

Accounting Policy (continued)

Classification (continued)

(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.

(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	Derivatives used for hedging	Total	Loans and receivables	Derivatives used for hedging	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2014							
Assets							
Derivative financial instruments	**–**	**10**	**–**	**10**	**–**	**–**	**–**
Trade and other receivables	**1,767**	**–**	**–**	**1,767**	**2,207**	**–**	**2,207**
Bank balances and short-term deposits	**2,331**	**–**	**–**	**2,331**	**744**	**–**	**744**
Total	**4,098**	**10**	**–**	**4,108**	**2,951**	**–**	**2,951**

	Amortised cost	At fair value through profit or loss	Derivatives used for hedging	Total	Amortised cost	Derivatives used for hedging	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2014							
Liabilities							
Derivative financial instruments	**–**	**2**	**9**	**11**	**–**	**1**	**1**
Trade and other payables	**1,002**	**–**	**–**	**1,002**	**234**	**–**	**234**
Advance from a related party	**218**	**–**	**–**	**218**	**–**	**–**	**–**
Put option over a non-controlling interest in a subsidiary company	**–**	**72**	**–**	**72**	**–**	**–**	**–**
Borrowings	**4,941**	**–**	**–**	**4,941**	**1,612**	**–**	**1,612**
Total	**6,161**	**74**	**9**	**6,244**	**1,846**	**1**	**1,847**

	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

	Amortised cost	At fair value through profit or loss	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	3,264	72	3,336	1,094

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. Any differences between the implicit and actual return on assets are charged as remeasurements to other comprehensive income.

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.

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 an one-off choice between Hong Kong's Mandatory Provident Fund ("MPF") and the defined benefits retirement schemes upon the launch of MPF. 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$1,250 per month until 31st May 2014; HK$1,500 per month effective from 1st June 2014). 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.

HAECO Americas provides eligible employees with a qualified defined contribution plan. The plan provides that employees may contribute up to 92% of pre-tax earnings as allowed by the U.S. tax code (capped at US$17,500 for 2014) and the company may elect, at its discretion, to make contributions to the plan in any year. For the year ended 31st December 2014, HAECO Americas elected to make discretionary contributions to the plan, matching 25% of employees' contributions up to a maximum employer contribution of 3% of employees' salaries.

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, HAECO Xiamen 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.

18. Retirement benefits (continued)

(a) Overall (continued)

Local staff employed by HAECO Line Services (Singapore) are covered by the Central Provident Fund in Singapore.

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 2014, the funding level was 114% (2013: 119%) of the accrued liabilities on an on-going basis. The Group expects to make contributions of HK$53 million to Local Scheme and nil to Expatriate Scheme in 2015.

For the years ended 31st December 2013 and 2014, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2012, which were updated at 31st December 2013 and 2014 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes.

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

	Group	
	2014	2013
	HK$M	HK$M
Local Scheme	**78**	89
Expatriate Scheme	**–**	1
MPF, statutory and other defined contribution schemes	**167**	139
	245	229

(b) Defined benefits retirement schemes

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

	Group					
	Local Scheme		Expatriate Scheme		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Current service cost	**88**	93	**2**	3	**90**	96
Net interest income	**(10)**	(4)	**(2)**	(2)	**(12)**	(6)
Total	**78**	89	**–**	1	**78**	90

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	
	2014	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Actual return on plan assets – gain	**95**	115	**5**	6	**100**	121

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	
	2014	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 31st December:						
Fair value of plan assets	**2,436**	2,452	**151**	164	**2,587**	2,616
Present value of obligations	**(2,442)**	(2,182)	**(92)**	(101)	**(2,534)**	(2,283)
Net retirement benefit (liabilities)/assets	**(6)**	270	**59**	63	**53**	333

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	
	2014	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Assets at 1st January	**270**	78	**63**	60	**333**	138
(Decrease)/increase due to:						
Total expense – as shown above	**(78)**	(89)	**–**	(1)	**(78)**	(90)
Actuarial (losses)/gains recognised in other comprehensive income	**(249)**	242	**(4)**	4	**(253)**	246
Contributions paid	**51**	39	**–**	–	**51**	39
(Liabilities)/assets at 31st December	**(6)**	270	**59**	63	**53**	333

The significant actuarial assumptions used are as follows:

	Group and Company			
	Local Scheme		Expatriate Scheme	
	2014	2013	**2014**	2013
Discount rate	**3.27%**	4.27%	**3.27%**	4.27%
Expected rate of future salary increases	**4.00%**	4.00%	**4.00%**	4.00%

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	
	2014	2013	**2014**	2013	**2014**	2013
			HK$M	HK$M	**HK$M**	HK$M
Discount rate	**0.5%**	0.5%	**(113)**	(111)	**118**	116
Expected rate of future salary increases	**0.5%**	0.5%	**116**	116	**(111)**	(111)

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.

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,452**	2,426	**164**	175	**2,616**	2,601
Transfer of members	**13**	3	**–**	–	**13**	3
Employer contributions	**51**	39	**–**	–	**51**	39
Employee contributions	**–**	–	**1**	2	**1**	2
Interest income	**100**	79	**6**	6	**106**	85
Return on plan assets, excluding interest income	**(5)**	36	**(1)**	–	**(6)**	36
Benefits paid	**(175)**	(131)	**(19)**	(19)	**(194)**	(150)
At 31st December	**2,436**	2,452	**151**	164	**2,587**	2,616

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,182**	2,348	**101**	115	**2,283**	2,463
Transfer of members	**13**	3	**–**	–	**13**	3
Employee contributions	**–**	–	**1**	2	**1**	2
Current service cost	**88**	93	**2**	3	**90**	96
Interest expense	**90**	75	**4**	4	**94**	79
Benefits paid	**(175)**	(131)	**(19)**	(19)	**(194)**	(150)
Experience losses	**27**	16	**–**	–	**27**	16
Actuarial losses/(gains) from changes in financial assumptions	**217**	(222)	**3**	(4)	**220**	(226)
At 31st December	**2,442**	2,182	**92**	101	**2,534**	2,283

The weighted average duration of the defined benefit obligations is 9 years (2013: 9.98 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 four times a year.

The make-up of the Trust is the result of the asset allocation of each plan. The asset allocation of each plan targets a mix of equities and 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	
	2014	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Equities						
Asia Pacific	**319**	284	**14**	14	**333**	298
Europe	**134**	152	**6**	8	**140**	160
North America	**276**	283	**13**	14	**289**	297
Emerging markets	**234**	296	**11**	15	**245**	311
Bonds						
Global	**1,102**	1,058	**81**	82	**1,183**	1,140
Emerging markets	**325**	330	**23**	25	**348**	355
Cash	**46**	49	**3**	6	**49**	55
	2,436	2,452	**151**	164	**2,587**	2,616

At 31st December 2014, the prices of 95.4% of equities and 89.6% of bonds were quoted on active markets (31st December 2013: 100% and 79.9% respectively). The remainder of the prices were not quoted on active markets.

The most significant risk facing the defined benefit schemes of the Group is market risk. This 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 enter into 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	Others	Total
	HK$M	HK$M	HK$M	HK$M
Deferred tax assets				
At 1st January 2013	72	58	–	130
Translation differences	1	1	–	2
Credited to statement of profit or loss	63	53	18	134
At 31st December 2013	136	112	18	266
Translation differences	(3)	(1)	–	(4)
Acquisition of a subsidiary company	146	199	–	345
Credited/(charged) to statement of profit or loss	26	(2)	(6)	18
Credited to other comprehensive income	–	–	2	2
At 31st December 2014	**305**	**308**	**14**	**627**

	Company
	Provisions
	HK$M
Deferred tax assets	
At 1st January 2013	26
Credited to statement of profit or loss	9
At 31st December 2013	35
Charged to statement of profit or loss	(13)
At 31st December 2014	**22**

19. Deferred taxation (continued)

	Group				
	Accelerated tax depreciation	Retirement benefit assets	Fair value adjustments arising from business combination	Others	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
Deferred tax liabilities					
At 1st January 2013	249	21	26	63	359
Translation differences	–	–	–	3	3
Charged/(credited) to statement of profit or loss	36	(6)	(1)	55	84
Charged to other comprehensive income	–	40	–	–	40
At 31st December 2013	285	55	25	121	486
Translation differences	–	–	–	(3)	(3)
Acquisition of a subsidiary company	–	–	362	1	363
Charged/(credited) to statement of profit or loss	27	(4)	(32)	9	–
Credited to other comprehensive income	–	(42)	–	–	(42)
At 31st December 2014	**312**	**9**	**355**	**128**	**804**

	Company		
	Accelerated tax depreciation	Retirement benefit assets	Total
	HK$M	HK$M	HK$M
Deferred tax liabilities			
At 1st January 2013	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
Credited to statement of profit or loss	(5)	(4)	(9)
Credited to other comprehensive income	–	(42)	(42)
At 31st December 2014	**207**	**9**	**216**

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% (2013: 16.5%). Overseas deferred tax is calculated using tax rates prevailing in the respective jurisdictions.

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$173 million (2013: HK$244 million) to carry forward against future taxable income. These amounts are analysed as follows:

	Group	
	2014	2013
	HK$M	HK$M
No expiry date	**49**	51
Expiring in 2015	**–**	59
Expiring in 2016	**–**	78
Expiring in 2017	**–**	56
Expiring in 2018 or after	**124**	–
	173	244

19. Deferred taxation (continued)

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	
	2014	2013
	HK$M	HK$M
Deferred tax assets:		
To be recovered after more than 12 months	**16**	61
To be recovered within 12 months	**80**	22
	96	83

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Deferred tax liabilities:				
To be settled after more than 12 months	**266**	313	**186**	243
To be settled within 12 months	**7**	(10)	**8**	(11)
	273	303	**194**	232

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.

20. Derivative financial instruments (continued)

Accounting Policy (continued)

(b) Cash flow hedge (continued)

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 the effective portion of forward foreign exchange contracts is recognised in the statement of profit or loss within revenue. The gain or loss relating to the ineffective portion of forward foreign exchange contracts 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	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts				
– cash flow hedges	**–**	–	**8**	–
– not qualifying as hedges	**10**	27	**2**	–
Interest rate swaps				
– cash flow hedges	**–**	–	**1**	–
Total	**10**	27	**11**	–
Less non-current portion				
Forward foreign exchange contracts				
– not qualifying as hedges	**–**	11	**1**	–
Interest rate swaps				
– cash flow hedges	**–**	–	**1**	–
	–	11	**2**	–
Current portion	**10**	16	**9**	–

	Company	
	Liabilities	
	2014	2013
	HK$M	HK$M
Interest rate swaps		
– cash flow hedges	**1**	–
Total	**1**	–
Less non-current portion		
Interest rate swaps		
– cash flow hedges	**1**	–
	1	–
Current portion	**–**	–

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 2014 was HK$345 million (2013: HK$651 million).

Interest rate swaps

The total notional principal amount of the outstanding interest rate swap contracts at 31st December 2014 was HK$1,148 million (2013: 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 an outflow of economic benefits is remote.

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Guarantees provided in respect of loans of:				
Subsidiary companies	**–**	–	**2,516**	659
Joint venture companies	**–**	66	**–**	–
	–	66	**2,516**	659

The liabilities guaranteed will mature at various dates from 2015 to 2019.

The above guarantees have not been recognised in the Group's statement of financial position because they are not considered to be material.

There is a dispute with a third party about rental obligations alleged to be owed to that party. It is not considered that the dispute will give rise to a future financial exposure.

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. The costs of manufactured goods comprise direct material and labour costs and an appropriate proportion of production overhead expenses.

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Carrying amounts at net realisable value:				
Materials	**407**	170	**187**	163
Manufactured goods	**92**	–	**–**	–
	499	170	**187**	163

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	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
The aggregate costs incurred and recognised profits to date	**686**	223	**77**	116
Less: Progress billings	**98**	93	**27**	49
	588	130	**50**	67

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.

24. Trade and other receivables (continued)

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Trade receivables – in HK dollars	**21**	28	**21**	28
– in US dollars	**957**	733	**135**	100
– in Renminbi	**45**	71	**–**	–
– in other currencies	**1**	2	**–**	–
	1,024	834	**156**	128
Less: Provision for impairment of receivables	**(89)**	(59)	**(15)**	(14)
	935	775	**141**	114
Amounts due from subsidiary companies	**–**	–	**141**	166
Amounts due from joint venture companies	**9**	15	**7**	12
Amounts due from related parties	**433**	607	**103**	105
Interest-bearing advance to a subsidiary company at 2.73% (2013: 2.74%)	**–**	–	**5**	3
Other receivables and prepayments	**390**	648	**123**	157
	1,767	2,045	**520**	557

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.

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Under three months	**898**	690	**138**	112
Between three and six months	**27**	33	**3**	1
Over six months	**99**	111	**15**	15
	1,024	834	**156**	128

24. Trade and other receivables (continued)

At 31st December 2014, the Group and the Company had trade debtors of HK$428 million (2013: HK$233 million) and HK$45 million (2013: HK$46 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	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Under three months	**383**	159	**43**	45
Between three and six months	**23**	43	**1**	–
Over six months	**22**	31	**1**	1
	428	233	**45**	46

At 31st December 2014, trade receivables of the Group of HK$89 million (2013: HK$59 million) and of the Company of HK$15 million (2013: HK$14 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	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Current	**2**	–	**–**	–
Up to three months overdue	**16**	–	**1**	–
Over six months overdue	**71**	59	**14**	14
	89	59	**15**	14

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
At 1st January	**59**	21	**14**	7
Acquisition of a subsidiary company	**12**	–	**–**	–
Provision for impairment of receivables	**21**	38	**1**	7
Unused amounts reversed	**(3)**	–	**–**	–
At 31st December	**89**	59	**15**	14

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.

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Trade payables	**492**	289	**11**	16
Amounts due to subsidiary companies	**–**	–	**6**	10
Amounts due to joint venture companies	**1**	2	**–**	1
Amounts due to related parties	**38**	52	**27**	26
Accrued capital expenditure	**45**	38	**2**	3
Accruals	**990**	1,193	**345**	521
Other payables	**478**	301	**190**	106
	2,044	1,875	**581**	683

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Under three months	**485**	282	**11**	14
Between three and six months	**5**	4	**–**	1
Over six months	**2**	3	**–**	1
	492	289	**11**	16

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.

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Short-term loans – in HK dollars	**262**	413	**–**	–
– in US dollars	**191**	116	**–**	–
– in other currency	**–**	4	**–**	–
	453	533	**–**	–
Long-term loans at cost				
– in HK dollars	**1,612**	1,044	**1,612**	938
– in US dollars	**2,859**	980	**–**	–
	4,471	2,024	**1,612**	938
Less: amounts due within one year included under current liabilities				
– in HK dollars	**817**	256	**817**	150
– in US dollars	**350**	113	**–**	–
	3,304	1,655	**795**	788

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 2014.

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Bank loans:				
Repayable within one year	**1,167**	369	**817**	150
Repayable between one and two years	**847**	892	**–**	493
Repayable between two and five years	**2,457**	763	**795**	295
	4,471	2,024	**1,612**	938

26. Borrowings (continued)

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	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
6 months or less	**3,776**	2,407	**1,162**	788

The Group's and Company's weighted average cost of debt in 2014 are 1.88% (2013: 2.60%) and 2.03% (2013: 3.47%) respectively.

Accounting Policy

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

The Group has commitments under finance lease agreements in respect of building and building facilities and plant and machinery and tools. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	Group	
	2014	2013
	HK$M	HK$M
Gross finance lease liabilities (in US dollars)		
No later than one year	**4**	–
Later than one year and no later than five years	**13**	–
Later than five years	**6**	–
	23	–
Future finance charges on finance leases	**(6)**	–
Present value of finance lease liabilities	**17**	–

The present value of finance lease liabilities at 31st December is repayable as follows:

	Group	
	2014	2013
	HK$M	HK$M
Repayable within one year	**3**	–
Repayable between one and five years	**10**	–
Repayable after five years	**4**	–
	17	–

27. Advance from a related party

Out of the advance from a related party, HK$90 million 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.

HK$128 million is at an interest rate of 1.26% per annum and unsecured. It is repayable in 2019. The carrying amounts approximate their fair values because the advance is on a floating rate basis at 31st December 2014.

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	
	Number of shares	HK$M
Ordinary shares of HK$1.00 each		
Authorised:		
At 31st December 2013	210,000,000	210
At 31st December 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 31st December 2014	**166,324,850**	**185**

During the year, 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.

a. The Company's authorised share capital ceased to exist (by virtue of section 98(4) of the New CO).
b. The Company's shares ceased to have nominal or par value (by virtue of section 135 of the New CO).
c. 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.

29. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Group										
At 1st January	**5,703**	5,328	**19**	19	**210**	157	**(1)**	1	**5,931**	5,505
Profit for the year	**573**	625	**–**	–	**–**	–	**–**	–	**573**	625
Other comprehensive income										
Defined benefit retirement schemes										
– remeasurement (losses)/gains recognised	**(253)**	246	**–**	–	**–**	–	**–**	–	**(253)**	246
– deferred tax	**42**	(40)	**–**	–	**–**	–	**–**	–	**42**	(40)
Cash flow hedges										
– recognised during the year	**–**	–	**–**	–	**–**	–	**(12)**	–	**(12)**	–
– transferred to revenue	**–**	–	**–**	–	**–**	–	**5**	–	**5**	–
– transferred to finance charges	**–**	–	**–**	–	**–**	–	**2**	–	**2**	–
– deferred tax	**–**	–	**–**	–	**–**	–	**1**	–	**1**	–
Share of other comprehensive income of joint venture companies	**(24)**	20	**–**	–	**–**	–	**(3)**	(2)	**(27)**	18
Net translation differences on foreign operations	**–**	–	**–**	–	**(43)**	53	**–**	–	**(43)**	53
Total comprehensive income for the year	**338**	851	**–**	–	**(43)**	53	**(7)**	(2)	**288**	902
Previous year's second interim dividend paid (note 11)	**(216)**	(333)	**–**	–	**–**	–	**–**	–	**(216)**	(333)
Current year's first interim dividend paid (note 11)	**(108)**	(133)	**–**	–	**–**	–	**–**	–	**(108)**	(133)
Change in composition of the Group (note 35)	**8**	(10)	**–**	–	**–**	–	**–**	–	**8**	(10)
Transition to no-par value regime on 3rd March 2014 (note 28)	**–**	–	**(19)**	–	**–**	–	**–**	–	**(19)**	–
At 31st December	**5,725**	5,703	**–**	19	**167**	210	**(8)**	(1)	**5,884**	5,931

29. Reserves (continued)

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Company										
At 1st January	**4,146**	3,910	**19**	19	**–**	–	**–**	–	**4,165**	3,929
Profit for the year	**401**	496	**–**	–	**–**	–	**–**	–	**401**	496
Other comprehensive income										
Defined benefit retirement schemes										
– remeasurement (losses)/gains recognised	**(253)**	246	**–**	–	**–**	–	**–**	–	**(253)**	246
– deferred tax	**42**	(40)	**–**	–	**–**	–	**–**	–	**42**	(40)
Cash flow hedges										
– recognised during the year	**–**	–	**–**	–	**–**	–	**(3)**	–	**(3)**	–
– transferred to finance charges	**–**	–	**–**	–	**–**	–	**2**	–	**2**	–
Total comprehensive income for the year	**190**	702	**–**	–	**–**	–	**(1)**	–	**189**	702
Previous year's second interim dividend paid (note 11)	**(216)**	(333)	**–**	–	**–**	–	**–**	–	**(216)**	(333)
Current year's first interim dividend paid (note 11)	**(108)**	(133)	**–**	–	**–**	–	**–**	–	**(108)**	(133)
Transition to no-par value regime on 3rd March 2014 (note 28)	**–**	–	**(19)**	–	**–**	–	**–**	–	**(19)**	–
At 31st December	**4,012**	4,146	**–**	19	**–**	–	**(1)**	–	**4,011**	4,165

The Group and Company revenue reserves include HK$241 million (2013: HK$216 million) representing the second interim dividend declared for the year (note 11). Distributable reserves of the Group at 31st December 2014 amounted to HK$4,012 million (2013: HK$4,146 million).

30. Non-controlling interests

	Group	
	2014	2013
	HK$M	HK$M
At 1st January	**1,229**	1,136
Share of profit for the year	**86**	71
Share of cash flow hedge reserve		
– loss recognised during the year	**(6)**	–
– transferred to revenue	**3**	–
– deferred tax	**1**	–
Share of net translation differences on foreign operations	**(28)**	30
Share of total comprehensive income	**56**	101
Acquisition of non-controlling interests in subsidiary companies	**–**	18
Disposal of interest in a subsidiary company	**71**	–
Dividends paid	**(38)**	(31)
Capital contribution from non-controlling interests	**–**	5
At 31st December	**1,318**	1,229

The Group has one subsidiary company that is material to the Group, being HAECO Xiamen. HAECO Xiamen 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 HAECO Xiamen.

Summarised statement of comprehensive income

	HAECO Xiamen	
	2014	2013
	HK$M	HK$M
Revenue	**1,938**	1,870
Profit before taxation	**228**	186
Taxation	**(69)**	(25)
Profit for the year	**159**	161
Other comprehensive income	**(67)**	73
Total comprehensive income	**92**	234
Total comprehensive income allocated to non-controlling interests	**38**	97
Dividends paid to non-controlling interests	**38**	31

30. Non-controlling interests (continued)

Summarised statement of financial position

	HAECO Xiamen	
	At 31st December	
	2014	2013
	HK$M	HK$M
Non-current assets	**1,921**	2,054
Current assets	**1,395**	1,347
Current liabilities	**552**	766
Non-current liabilities	**139**	11
Net assets	**2,625**	2,624

Summarised cash flows

	HAECO Xiamen	
	2014	2013
	HK$M	HK$M
Net cash generated from operating activities	**466**	299
Net cash (used in)/generated from investing activities	**(56)**	39
Net cash used in financing activities	**(108)**	(69)
Net increase in cash and cash equivalents	**302**	269
Cash and cash equivalents at 1st January	**715**	427
Currency adjustment	**(22)**	19
Cash and cash equivalents at 31st December	**995**	715

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 2014, the current portion included in other payables under current liabilities is HK$10 million (2013: HK$11 million) while the non-current portion is HK$27 million (2013: HK$37 million).

32. Notes to the consolidated statement of cash flows

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

	Group	
	2014	2013
	HK$M	HK$M
Operating profit	**509**	266
Depreciation, amortisation and impairment	**639**	488
Other items	**31**	(7)
Operating profit before working capital changes	**1,179**	747
Decrease in retirement benefit assets	**27**	51
(Increase)/decrease in stocks and work in progress	**(341)**	57
Decrease/(increase) in trade and other receivables in relation to operating activities	**661**	(645)
(Decrease)/increase in trade and other payables in relation to operating activities	**(273)**	476
Decrease in receipt in advance	**(10)**	(11)
Decrease/(increase) in derivative financial instruments	**19**	(31)
Increase in long-term prepayment	**–**	(1)
Increase in deferred income	**12**	1
Cash generated from operations	**1,274**	644

(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	
	2014	2013
	HK$M	HK$M
Cash and cash equivalents	**2,310**	2,341
Short-term deposits maturing after more than three months	**21**	23
	2,331	2,364

The Group's and Company's weighted average interest rates per annum on cash and cash equivalents and deposits in 2014 are 1.29% (2013: 0.97%) and 0.75% (2013: 0.67%) respectively. The deposits have an average maturity of 63 days (2013: 63 days) for the Group and 38 days (2013: 58 days) for the Company.

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2014 and 31st December 2013 is the carrying value of the bank balances and short-term deposits disclosed above.

33. Capital commitments

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for in the financial statements	**166**	3,194	**91**	158
Authorised by Directors but not contracted for	**1,126**	1,082	**327**	317
	1,292	4,276	**418**	475
The Group's share of capital commitments of joint venture companies not included above:				
Contracted but not provided for in the financial statements	**41**	38		
Authorised by Directors but not contracted for	**242**	354		

Capital commitments mainly relate to 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 2014, the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group and the Company were as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M
Land and buildings and plant and equipment				
Not later than 1 year	**177**	129	**154**	128
Later than 1 year but not later than 5 years	**717**	515	**654**	514
Later than 5 years	**2,602**	2,286	**2,589**	2,286
	3,496	2,930	**3,397**	2,928

35. Transactions with non-controlling interests

(a) Disposal of interest in a subsidiary company without loss of control

On 26th September 2014, HAECO and HAECO Xiamen completed the disposal of 7.43% and 0.99% of equity interests in TEXL at a consideration of HK$70 million and HK$9 million respectively. After the disposal, the Group's shareholding in TEXL reduced from 80.87% to 72.86%. The effect of changes in the ownership interest of TEXL on the equity attributable to the Company's shareholders is summarised as follows:

	2014	2013
	HK$M	HK$M
Consideration received from non-controlling interest	**79**	–
Less: carrying amount of non-controlling interests disposed of	**71**	–
Gain on disposal within equity	**8**	–

(b) Acquisition of additional interest in a subsidiary company

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

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

	2014	2013
	HK$M	HK$M
Consideration paid for additional shareholding	**–**	21
Less: carrying amount of non-controlling interests acquired	**–**	11
Excess of consideration paid recognised within equity	**–**	10

(c) Effect of transactions with non-controlling interests on the equity attributable to the Company's shareholders at year end

	2014	2013
	HK$M	HK$M
Total comprehensive income attributable to the Company's shareholders	**288**	902
Changes in equity attributable to the Company's shareholders arising from:		
Disposal of interest in a subsidiary company without loss of control	**8**	–
Acquisition of additional interest in a subsidiary company	**–**	(10)
	296	892

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 of the Group are individuals and companies, including subsidiary and joint venture companies and key management of the Group or parent of the Group (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. Remuneration of key management which includes executive and non-executive directors and executive officers is disclosed 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	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
		HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Revenue from rendering of services	*a*	**36**	42	**–**	–	**2,583**	2,691	**2,619**	2,733
		36	42	**–**	–	**2,583**	2,691	**2,619**	2,733
Purchases of:									
Services from John Swire & Sons (H.K.) Limited under services agreement									
– Service fees payable during the year		**–**	–	**–**	–	**18**	17	**18**	17
– Expenses reimbursed at cost		**–**	–	**–**	–	**61**	51	**61**	51
Subtotal		**–**	–	**–**	–	**79**	68	**79**	68
– Share of administrative services		**–**	–	**–**	–	**5**	4	**5**	4
Total		**–**	–	**–**	–	**84**	72	**84**	72
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		**–**	–	**–**	–	**7**	6	**7**	6
Risk management service		**–**	–	**2**	1	**–**	–	**2**	1
Services from Cathay Pacific Airways Limited Group		**–**	–	**–**	–	**26**	24	**26**	24
Other services	*b*	**17**	26	**–**	–	**23**	30	**40**	56
		17	26	**2**	1	**140**	132	**159**	159

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 HAESL.*

c. *Amounts due from and due to joint venture companies and other related parties at 31st December 2014 are disclosed in notes 24 and 25 to the financial statements.*

d. *Continuing connected transactions during 2014:*

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 HAECO ITM*

Pursuant to the Framework Agreement dated 13th November 2013 with Cathay Pacific and HAECO ITM, 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 HAECO ITM 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 HAECO ITM, HAECO ITM 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 2014 and under the Framework Agreement, the amounts payable by the Cathay Pacific Group to the HAECO Group totalled HK$3,167 million, the amounts payable by the HAECO Group to the Cathay Pacific Group totalled HK$26 million, no amounts were payable by the HAECO Group to HAECO ITM and the amounts payable by HAECO ITM to the HAECO Group totalled HK$231 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 2014, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$18 million and expenses of HK$61 million were reimbursed at cost.

38. Business combination

On 6th February 2014, the Group acquired the entire issued share capital of TIMCO Aviation Services, Inc., 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**

38. Business combination (continued)

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

	Note	Fair value HK$M
Property, plant and equipment	*13*	**375**
Leasehold land and land use rights	*13*	**18**
Intangible assets	*14*	**812**
Stocks		**337**
Work in progress		**111**
Cash and cash equivalents		**142**
Trade and other receivables		**395**
Trade and other payables		**(456)**
Taxation payable		**(2)**
Loans		**(208)**
Finance lease obligations		**(20)**
Deferred tax liabilities	*19*	**(18)**
Identifiable net assets acquired		**1,486**
Goodwill	*14*	**1,390**
		2,876

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

The goodwill is attributable to TIMCO Aviation Services, Inc.'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 31st December 2014 respectively.

The contingent consideration requires the Group to pay, in cash, to the former owners of TIMCO Aviation Services, Inc. an amount equal to 70% of the tax benefit arising on change in control payments made to certain members of senior management of TIMCO Aviation Services, Inc. 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$2,885 million and a net loss of HK$45 million to the Group for the period from 6th February 2014 to 31st December 2014. If the acquisition had occurred on 1st January 2014, the consolidated revenue and consolidated net profit for the year ended 31st December 2014 would have been, on a pro-forma basis, HK$12,285 million and HK$671 million respectively.

39. Principal subsidiary and joint venture companies at 31st December 2014

	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 Private Jet Solutions, LLC # (previously known as HAECO Cabin Solutions, LLC)	United States	Certification, engineering design and programme management for cabin completion and reconfiguration	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	100 shares	70%	–	100%
HAECO USA Holdings, Inc.	United States	Aircraft overhaul and maintenance, cabin modification and interior products manufacturing	2,000 shares of US$0.01 each	100%	–	100%
Shanghai Taikoo Aircraft Engineering Services Company Limited *#+	Shanghai	Line services	Registered capital of US$3,700,000	60%	15%	68.78%
Singapore HAECO Pte. Limited	Singapore	Line services	Registered 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	67.58%	9.01%	72.86%
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	9,200,000 shares	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	20 shares	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.*
~ *Wholly foreign owned enterprise incorporated in Mainland China.*
# *Companies not audited by PricewaterhouseCoopers.*
^ *Company in which the Group does not have control despite holding more than 50% share capital.*
\+ *Translated name.*

Principal Accounting Policies

The principal accounting policies of the Group are set out in the relevant Notes to the Financial Statements 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 financial statements.

In accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit" as set out in sections 76 to 87 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), the consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

HKAS 32 (Amendment)	Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) 21	Levies

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

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

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 financial statements.

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 financial statements.

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 financial statements.

1. Basis of preparation (continued)

(b) The following amendment is effective but not relevant to the Group's operations:

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

(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
HKFRSs (Amendment)	Annual Improvements to HKFRSs 2010-2012 Cycle	1st January 2015
	Annual Improvements to HKFRSs 2011-2013 Cycle	1st January 2015
	Annual Improvements to HKFRSs 2012-2014 Cycle	1st January 2017
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation	1st January 2016
HKAS 19 (Amendment)	Defined Benefit Plans – Employee Contributions	1st January 2015
HKFRS 10 and HKAS 28 (Amendment)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	1st January 2016
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1st January 2016
HKFRS 15	Revenue from Contracts with Customers	1st January 2017
HKFRS 9	Financial Instruments	1st January 2018

The improvements to HKFRSs cycles consist of amendments to existing standards. It is not expected that these amendments will have a significant impact on the Group's financial statements.

The amendments to HKAS 16 and HKAS 38 clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It has clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The Group has yet to assess the full impact of the amendments.

The amendment to HKAS 19 applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment permits (but does not require) contributions from employees or third parties that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, rather being attributed to periods of service as a negative benefit. It is not expected that this amendment will have a significant impact on the Group's financial statements.

1. Basis of preparation (continued)

(c) (continued)

The amendments to HKFRS 10 and HKAS 28 address an inconsistency between HKFRS 10 and HKAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group has yet to assess the full impact of the amendments.

The amendment to HKFRS 11 provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business'. The Group has yet to assess the full impact of the amendment.

HKFRS 15 replaces HKAS 11, HKAS 18 and related interpretations. The core principle of HKFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The principles of the standard will be applied using a five-step model. HKFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Group has yet to assess the full impact of the new standard.

The complete version of HKFRS 9 replaces most of the guidance in HKAS 39. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, which means that a loss event will no longer need to occur before impairment allowance is recognised. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the rigid bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. The Group has yet to assess the full impact of the new standard.

(d) The following new and revised standards have been issued which are not yet effective and are not relevant to the Group's operations:

HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRS 14	Regulatory Deferral Accounts

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.

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.

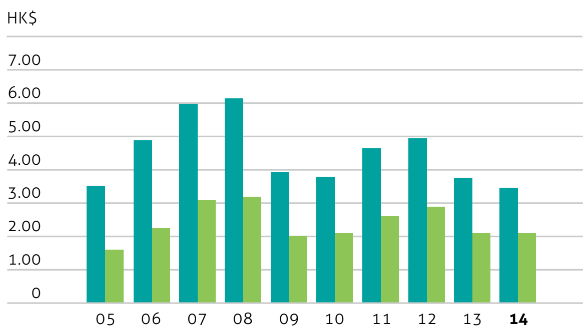
On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated in a separate component of equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded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

	2005	2006	2007
	HK$M	HK$M	HK$M
Revenue	3,121	3,844	4,619
Net operating profit	470	738	909
Share of after-tax results of joint venture companies	265	328	394
Profit attributable to the Company's shareholders	585	811	993
Interim and final dividends	266	374	512
Special dividend	–	416	–
Net assets employed			
Non-current assets	3,585	4,448	5,283
Net current assets/(liabilities) excluding deposits, loans and lease obligations	45	(212)	(38)
Cash surplus/(Net borrowings)	877	834	767
Less: non-current liabilities excluding loans and lease obligations	(334)	(402)	(645)
	4,173	4,668	5,367
Financed by			
Equity attributable to the Company's shareholders	3,587	3,986	4,882
Non-controlling interests	586	682	485
	4,173	4,668	5,367
	HK$	HK$	HK$
Results per share			
Earnings attributable to the Company's shareholders	3.52	4.88	5.97
Interim and final dividends	1.60	2.25	3.08
Special dividend	–	2.50	–
Equity attributable to the Company's shareholders	21.57	23.97	29.35
Number of staff			
HAECO Hong Kong	3,757	4,356	4,523
HAECO Americas	–	–	–
HAECO Xiamen	2,945	4,098	5,086
HAESL	750	805	844
Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own at least 20%	731	859	1,245
	8,183	10,118	11,698
Ratio			
Return on equity	17.5%	21.4%	22.4%
Profit margin	13.2%	17.3%	18.2%
Dividend cover – times*	2.20	2.17	1.94
Gearing ratio	–	–	–
Interest cover – times	N/A	N/A	N/A
	HK$	HK$	HK$
Share prices			
High	66.00	120.00	246.20
Low	39.90	59.50	104.00
Year–end	59.50	106.00	212.20
Market information			
Price/earnings – times	16.90	21.72	35.54
Market capitalisation (HK$ Million)	9,896	17,630	35,294

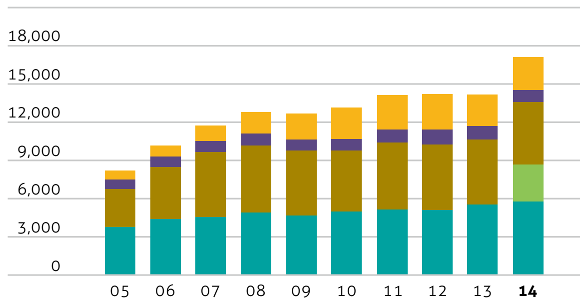
Earnings and Dividends Per Share*



Earnings Dividends*

Dividends represent the interim and final dividends.

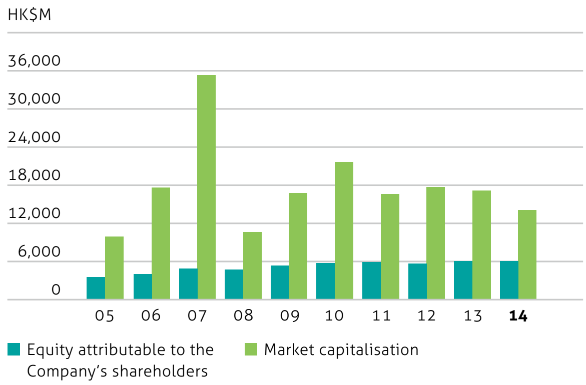
Number of Staff



HAECO Hong Kong HAECO Americas HAECO Xiamen
HAESL Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own at least 20%

2008	2009	2010	2011	2012	2013	**2014**
HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	**HK$M**
4,901	4,045	4,266	5,171	5,830	7,387	**11,927**
892	341	310	471	417	228	**439**
453	417	402	431	560	501	**314**
1,022	652	630	772	822	625	**573**
529	332	349	432	479	349	**349**
–	–	–	566	–	–	**–**
5,967	6,978	7,159	7,121	7,037	7,424	**9,693**
(162)	(115)	146	276	534	608	**929**
215	(143)	(176)	(106)	(261)	(193)	**(2,610)**
(341)	(419)	(428)	(365)	(503)	(513)	**(625)**
5,679	6,301	6,701	6,926	6,807	7,326	**7,387**
4,740	5,337	5,780	5,911	5,671	6,097	**6,069**
939	964	921	1,015	1,136	1,229	**1,318**
5,679	6,301	6,701	6,926	6,807	7,326	**7,387**
HK$	HK$	HK$	HK$	HK$	HK$	**HK$**
6.14	3.92	3.79	4.64	4.94	3.76	**3.45**
3.18	2.00	2.10	2.60	2.88	2.10	**2.10**
–	–	–	3.40	–	–	**–**
28.50	32.09	34.75	35.54	34.10	36.66	**36.49**
4,861	4,621	4,967	5,102	5,070	5,492	**5,734**
–	–	–	–	–	–	**2,894**
5,268	5,094	4,739	5,240	5,144	5,091	**4,902**
908	892	901	1,023	1,165	1,073	**915**
1,701	2,008	2,471	2,689	2,776	2,460	**2,612**
12,738	12,615	13,078	14,054	14,155	14,116	**17,057**
21.2%	12.9%	11.3%	13.2%	14.2%	10.6%	**9.4%**
15.9%	7.6%	5.9%	7.7%	5.1%	2.6%	**2.9%**
1.93	1.96	1.80	1.79	1.72	1.79	**1.64**
–	2.3%	2.6%	1.5%	3.8%	2.6%	**35.3%**
N/A	69.20	39.75	68.29	25.53	7.00	**7.27**
HK$	HK$	HK$	HK$	HK$	HK$	**HK$**
215.00	112.00	150.00	130.70	113.48	114.03	**101.77**
44.60	64.00	79.00	92.00	94.33	101.50	**84.60**
63.70	100.80	129.90	100.00	106.40	103.00	**84.90**
10.37	25.71	34.27	21.55	21.54	27.39	**24.61**
10,595	16,766	21,606	16,632	17,697	17,131	**14,121**

Equity Attributable to the Company's Shareholders and Market Capitalisation



Glossary

Terms

Net borrowings Total loans and finance lease obligations less bank deposits and bank balances.

Total equity Total of equity attributable to the Company's shareholders and non-controlling interests.

Ratios

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

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

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

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

$$\text{Market capitalisation} = \text{Year-end share price x Number of shares in issue at year-end}$$

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

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

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

Financial Calendar and Information for Investors

Financial Calendar 2015

Shares trade ex-dividend	31st March 2015
Share register closed for second interim dividend entitlement	2nd April 2015
Annual Report available to shareholders	14th April 2015
Payment of 2014 second interim dividend	28th April 2015
Share register closed for attending and voting at Annual General Meeting	12th – 15th May 2015
Annual General Meeting	15th May 2015
Interim results announcement	August 2015
First interim dividend payable	September 2015

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Stock Code

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ADR: HKAEY
CUSIP Reference Number: 438569105

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Public Affairs

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